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an American Looks at Karl Marx

by

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Table of Contents

SECTION III: THE ATTACK ON MARXIAN ECONOMIC THEORY

SECTION IV: SOURCES AND PHILOSOPHY OF MARXIST POLITICAL ECONOMY

Preface

Authors of textbooks make a profession of modesty; let me join that multitude. Whoever considers the difficulty and complexity of Marxian political economy may well tremble at his assurance in assigning himself to expound that doctrine.

Yet it must be done. Marxian political economy was for a long time regarded as one of the exploded, ponderous systems of the Nineteenth Century. The critique of the Austrian school, especially, was thought to have done it in. Mr. J. M. Keynes wondered how such a dull, implausible doctrine had ever engaged the attention of intelligent men.

Today that attitude is no longer maintained, nor is it tenable. Whatever may be the appraisal of Marxian economic theory, it is followed by too many serious and competent scholars and it has too great a political impact to suffer further academic neglect. Yet it is regrettable that it is still slighted. A doctrine so challenging is at least good intellectual discipline. Yet textbooks on economics cite it in passing, or fail to mention its specific doctrines, placing it under the rubric of socialism with little detail or, in several cases, I regret to say, it is even described inaccurately. One celebrated text in the history of economic doctrine has given the reverse of its teachings on central points.

Perhaps the reason for this neglect is the comparative want of material in the English language. In German and French, and, of course, Russian, there is no want of manuals and studies with full scholastic apparatus and conforming to the highest academic standards. Marxian doctrine, instead of being a sectarian teaching confined to agitators and presented in a composite style of economic doctrine and social anathemas, has taken on full university citizenship. The influence of Dobb at Cambridge, Laski at London, and Lindsay at Balliol, has extended Marxian studies in England and the large number of scholars come from the Fascist lands have given their talents. The statistical work of Kuczynski is an example.

In the United States, the only textbook of which I am aware is a translation from the Russian and a truculent dogmatic affair.

My title to speak of Marxian political economy comes from the world of economic practice. For thirty years a statistician, economist, financial editor, banker, and grain merchant, I have found the study of political economy in my evenings a running commentary on the employments of the day.

I came to economics from the stock exchange and banking; naturally I concentrated on money and taxation. Marxian economic theory, rooted in production relations, was the antipodes of my profession and my interests. It had the attraction of all opposites. I began with several essays on the theory of rent in 1912 and have been incurable since.

This book sometimes passes out of bounds into discourse. It is hoped that at times it will amuse and stimulate students, for who can deny them a camel's privilege of an oasis in the arid desert of ideas?

It was hard to impose limits and determine a method for this book. In expounding Marx, the advocate's is the only tenable attitude: in citing criticism of Marx, the causes of both sides must be argued. But the interpenetration of Marxian political economy and the wider philosophy of socialism made their separation difficult and somewhat artificial, and as for criticism, *every* alternate economic theory is by implication a critique of the Marxian. The economic theory is the body of the book: there are many appendices.

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SECTION I

Preliminaries

To Marxian

Political Economy

1

Historical Basis of Marxian Economic Theory

The Scope of Political Economy

Political economy is the systematic study of the social modes of the production of wealth, and of the distribution of those products to participants in, or claimants to, that production. There are numerous schools of economic theory. They are not agreed as to its scope or its method. They are in dispute as to the laws of value, price, wages, rent, interest, and profits. There are few branches of knowledge in which there is greater divergence both as to fundamentals and details.

Marxian Political Economy

Among the many contenders for the honor of alone embodying the true science of political economy, a conspicuous place is held by the system of Karl Marx (1818-1883). His system of political economy is notable in that it is not merely a branch of learning but has become the guide to large political parties with some representation in every civilized country, even where repressed. In one country it is the foundation of the entire political and social structure. In this textbook it will be studied entirely from the viewpoint of economic theory, objectively, and its validity tested by the usual methods of evidence and logic.

Rival Economic Systems

Prior to Karl Marx, the dominant school of political economy was the classical British, represented by Adam Smith (*Wealth of Nations,* 1776) and David Ricardo (*Principles of Political Economy,* 1817). Marx is the continuer of their tradition, and his system is generally considered to be the epilogue of the British classical school. It gave rise to three branches: the eclectic, of which the chief representative was the humane John Stuart Mill (*Principles of Political Economy,* 1847); the theory of equilibria and quasi-rents of Alfred

Marshall (*Principles of Economics,* 1890); and above all the elaborate study of Karl Marx (*Capital,* 1867, 1885, 1894).[1]

Only one other system of political economy rivaled the British; that was the Physiocratic in France (about 1760). It sought to establish the economic system as an entirety; the total production, distribution, and reproduction of wealth in any given country as a constantly renewing whole. It was as brilliant in synthesis as the British school in analysis. Marx drew copiously on the British school for the first volume of *Capital,* on the Physiocratic method for the second volume (on the circulation of capital), and applied both methods to a description of capitalism in action in the third volume.

About 1870, the school of subjective value, orginally formulated by Say, a superficial French economist, and thought to have been discredited by Marx, was revived in a more penetrating and brilliant style by Jevons in England and Carl Menger in Austria. It has become the dominant school of economics and an examination of several dozen current college textbooks in economics fails to show one in which its principal theories are not taken as proved. Some of its phrases such as "marginal utility" have entered popular speech.

This school is the principal opponent of Marxism, and is thought generally to have superseded and antiquated it. Since Marx employs the older terminology of the British classical economists, and the new school (usually titled "Austrian") employs a rich nomenclature of its own coining, the latter carries the further weight of a new speech, often held to mean new truth. In the twentieth century the diversity of schools has greatly increased; all of these will appear in the critical section of this book, in so far as they formulate their criticisms of Marxism.

Marx and His Three Sources

It is generally agreed that the whole body of Marxian thought, of which his economic theory is only a section, can be traced to three sources: *British classic economic theory; German idealist philosophy,* especially that of the system of Hegel (1770-1831); and *French socialism,* especially that of Fourier (1772-1837) and Saint-Simon

[1] Volumes II and III were published posthumously.

(1760-1825). The three sources theory has been crystallized in a celebrated essay of Lenin. It is undoubtedly the most fertile way of describing Marxian origins, but it needs amplification. It does show, though, that Marx was the epitome of European culture, and that his system was not eccentric, but a transfiguration of older theories, a reunion of diverging streams by a great engineer.

Karl Marx

Marx was born in Trier (or Treves), in the Rhenish Province of Prussia, on the frontier of French speech. This border training may have had some influence on his later internationalism. He came of a well-to-do middle-class family, of intellectual traditions. The family became converted to the Protestant faith because of the disabilities attached to the Jewish community. As the tradition of the family was that of Voltaire and Diderot and the French skeptics of the eighteenth century, the older and the newer allegiance were alike nominal.

Marx was classically educated in the then German tradition and steeped in Greek and Roman letters. He studied jurisprudence at Berlin University, which was then under the influence of Savigny, the exponent of the idea that the laws of mankind are rooted in deep historic habits and that no code can be imposed by reason. From the teachings of Savigny, Marx absorbed a dislike of theories spun out of the mind, rather than out of historical experience.

His Writings

Marx applied for his doctorate in philosophy to Jena University. His thesis was concerned not with law, in which he had majored, but with the natural philosophies of Epicurus and Democritus, the two most humane Greek thinkers, as they appeared in the religious criticism of Plutarch. It is interesting that his first completed work deals with systems of natural philosophy, and not with the law. The interpretation of legal systems by a comprehensive philosophy was to be one of his achievements.

Early Influences

Marx came under the influence of a school of brilliant and original young men called the "Left Hegelians." Their most important

writer was Feuerbach, who for some time held empire over Marx's mind. These thinkers, although followers of the most systematic of philosophers, Hegel (1770-1831), assumed that his theories could serve liberalism, whereas he had declared that the Prussian monarchy was the image of perfection. Marx both profited by this school and later revised its teachings. So, from the German juridical school, Marx learned to use history as a weapon; from the philosophical school, he was to understand that mere historical knowledge will never be enough to explain the inner connection of events.

Political Economy

As yet Marx was not versed in political economy. He at first turned to journalism, and was, in the words of Sombart, the first distinguished German journalist. His brilliant editorials, which led to his leaving Germany because of their radicalism, were not well grounded in economics. At Paris, where he emigrated, Marx took up the study of political economy.

Frederick Engels

In Paris Marx collaborated with a young friend, whose talents were scarcely inferior to Marx's, though he lacked the capacity of Marx for great original syntheses. Frederick Engels (1820-1895), born in Westphalia, was engaged in business in England. Their friendship was everlasting, their co-operation continuous, and they remain unique in the history of learning for their forty years of continuous interchange of ideas and criticism. After Marx's death, Engels edited his manuscripts and integrated his ideas into a system, that is, as connected with branches of knowledge not directly concerned with political science or political economy.

The State of Paris in 1844

At Paris centered world socialism. Socialism then did not mean what it now does; the later meaning is largely due to Marx himself. It insisted that co-operation replace competition, and that men think communally. But it did not ask for the complete abolition of income not derived from labor. It hoped that a better state of society could be brought about by reason and by the natural philanthropy

of the well-to-do. But in the field of political economy it was not sentimental. There its superb criticism of present-day society had an acuity and justice that led to its adoption by Marx.

Criticism Not Enough

But Marx's juridical and philosophical training enabled him to see that the criticism of society as defective in the abstract, was not a sufficient explanation of economic reality. He mastered the classical economists and found them even more stimulating than the French Socialists. So by 1844 he had already sensed a new economic system, which was pretty explicit by 1846. He was driven to Brussels by the French police, who, under Guizot, the then Prime Minister, desired a state run only by bankers and powerful merchants and manufacturers. The irony of the business was that Guizot was the first formulator of the theory that all history is nothing but an expression of class struggles. He proved it.

The Synthesis

Marx was also impressed by the new, gigantic trades-union movement in England. It was the first general expression of the action of a working class. Although he was associated in the older secret conspiratorial groupings of revolutionists in Europe, he saw that the English movement of the masses of workers was the more significant. He turned from conspiracy to the study of history as made by the masses. From that point on he lost interest in Utopias.[2]

A particularly pretentious book by the French economist Proudhon, *The Philosophy of Poverty,* irritated him for its borrowed plumes of philosophy and its naïve economics. His first important book, *The Poverty of Philosophy,* written in French, attacked Proudhon. It did more than that, it created a new political economy (1847).

The synthesis was nearly complete. German idealist philosophy was reversed by Marx. Instead of history being the realization of the idea, the ideas of men were molded by their modes of producing wealth—that is, by the level of technique—within a certain system

[2] The first expressions of working-class activity, politically, were in the American workingmen's parties about 1830 and in British Chartism.

of class relations. In other words, the institutions and ideas of the human race are a superstructure; their economic relationships and activities are the foundation. But these relationships are not individual but social. Men are related to production as groups, that is, as capitalists or landlords or workers or independent merchants, say. Hence history is understood as reflecting the relations of classes in the production of wealth, and their struggles within that relation for power to determine its distribution.

The Communist Manifesto

By 1847 the activities of revolutionary workers were sufficiently advanced to demand a complete formulation, as to both theory and action. Until this period neither Marx nor Engels had wholly united these two. Engels's principal book had been a scathing indictment and hideous picture of the life of the British workers, *The Condition of the Working Class in England,* published in 1844. Marx had written a long series of miscellanies, some brilliant books on philosophy such as the *German Ideology,* but nearly all these works were critical or polemical. No rounded statement of their aims had appeared. The Communist Manifesto, published in 1848, is the work of the two friends, and is to Socialism and Communism what the Bill of Rights is to Englishmen, the Declaration of Independence to Americans, and the Declaration of the Rights of Man to Frenchmen.

In the Communist Manifesto all the leading ideas of Marx and Engels appear, apart from the economic system that was to authenticate these ideas. But even of that economic system, practically every idea is implicit in the Manifesto, or is understood by reference to the already numerous letters and editorials and scattered writings of Marx and Engels. That is not to say that the gigantic system now known as Marxism was complete in 1848. It was not really integrated until about 1855 and will never be finished.

The pamphlet *Wage-Labor and Capital* (even before the corrected version of Engels, issued decades later) already shows that the Marxian economic system was ready for formulation, except that the key idea of the difference between labor and labor-power was missing.

Marx and Exile

After a brief but colorful struggle in the German revolution of 1848-9, Marx made his home in England. There he pursued economic researches with an intensity that has never found a parallel. At that time he became the European correspondent of the New York *Tribune,* being on friendly terms with the following of Horace Greeley, who coquetted with Socialist notions. His theories were now formulated in a long series of writings, topical, critical, forensic, and both polemical and systematic. They range from flysheets written for conspirators to bulletins, newspaper articles, a masterly and encyclopedic treatise on political economy (*Capital*), the most recondite history of economic doctrines, and a host of other histories, treatises, etc. In the midst of these studies and writings he was an active leader, and when the International Workingmen's Association (the "First International") was formed, he automatically was chosen the leader of the world's working class, though not himself a laborer.

Special Features of Marx's Doctrine

Marx's economic system is outlined in his *Critique of Political Economy,* issued in 1859: it was a mere corridor to his *Theories of Surplus-Value.* In 1867 it was formulated for an abstracted capitalist society, in which certain principles were assumed in order to make it easy to isolate the unique properties of that capitalist society, in contradistinction to any previous or future society. The ideas of the "industrial revolution" and of the "capitalist system," now catchwords, were originated by Marx. In this first volume of *Capital,* Marx studies, not individual acts of exchange, or the relations of prices between specific goods, but the laws of motion of capitalist society as a whole. For this he has two assumptions:

(*a*) That each society has its own laws of motion, and that while it incorporates features of older societies and reveals features of future societies, the first task of the historian is to comprehend those economic features that are its own contributions, and which are overwhelmingly dominant as forces at any given time.

(*b*) That no matter how much institutions evolve, at any given moment they can be apprehended abstractly, that is, their actions can be reduced to laws.

And there is a third assumption behind the two leading hypotheses:

(*c*) That political economists have studied the appearances of rent, wages, prices, values, profits, interest, etc., whereas the task of economic science, *as of any science,* is to reveal the hidden connections behind all these varying appearances, and that once these underlying laws have been ascertained, we can then account for the constant divergence of appearances from underlying realities.

three

From these two assumptions, and from the underlying approach, certain very significant consequences arise, all of which differentiate Marxian economic theory from any other. These are:

(1) All economic formulations are concerned with society as a whole. Every day millions of commodities are produced. Every day there is a corresponding series of millions of acts of exchange to distribute these commodities. This production is constantly renewed. The relations of classes to each other, such as worker to capitalist, are equally renewed in this constantly renewed production. Hence the reproduction of commodities, or acts of exchange, and of social relations in production, require first of all a social formulation of economic laws.

(2) Any economic formulations must refer to a specified society, where there are certain known modes of production, at a definite level of technique, as conditioned by given class relations.

(3) Nevertheless, in so far as this society has other features, these come under broader laws. For example, all societies that employ money have certain characteristics in common for money users. But the relation of that use of money to each special mode of production makes for different laws, as well.

(4) Production precedes distribution. It has been the relations of men in production, master and slave, lord and serf, guildman and apprentice, capitalist and worker, merchant and clerk, etc., that have been the basic economic institutions of

any given time. All wealth is renewable constantly only in continuous production. That is the dynamic factor in society. Altered modes of production alter all other economic behavior. Steam engines precede giant production, and it is giant production that gives rise to appropriate modes of exchange.

(5) Although production relations are primary, nevertheless the modes of circulation of commodities have a minor influence. These sometimes have a significance of their own and react on production. But their influence is never basic; that is reserved to production.

(6) There are "eternal laws" of economics but they are pale and useless generalizations that have no meaning for science. The truism that everyone who has just eaten a heavy meal desires food less than those who have not yet eaten (a favorite of subjective economists), tells us nothing of varying production relations or of the real activities of hundreds of millions of human beings in constantly renewed production relations, nor does it reveal the difference between myriads of men working at mechanized tasks in factories as compared to a few field laborers working for a feudal lord.

(7) The value of the entire social production is the first object of exploration. Then follow the total economic position of wages, profits, rent, interest, etc. Once the total quantity of these categories are known, we can then proceed to approximations that come closer and closer to specific acts of exchange, specific prices, etc.

(8) Political economy is always dynamic, always on the move. Two events that we call by the same name are never quite the same thing. You can use the word *crisis* for the crisis of 1837 and that of 1929. These crises have certain features in common and that is why we use a common term. But their altered relations to the different production techniques and to the social relations depending thereon, mean that each has individual attributes and that the study of these altered attributes is as significant as that of their general resemblances.

(9) Political economy is not a "study," it is a guide to action, or, as a disciple of Marx has stated, "A working tool." It is never an immobile object on the dissecting table. The persons who study it are in it: they derive their living from

that society and they belong to economic groups within it. While they are talking about it, while they study it, it is changing, and changing by human agency.

(10) More exactly, political economy is the science of a given class: and it is ascertained by that class, not abstractly, but because that class, by its action, creates the economic activities it seeks to apprehend. Thus political economy cannot be based on the perceptions of any scholar, or even of a group of thinkers, except in so far as they reflect the activities of the *masses*.

(11) There is, however, an objective science of political economy. But an objective science is one thing and the way we come to know it is another. The perception of economic phenomena depends upon a class that perceives data as it creates it, and it sees that data according to its needs. Thus capitalists in the seventeenth century saw that landlords were useless, because of what they were doing, and what landlords were not doing. But in the twentieth century, social production has made laborers see what they are doing and what their class is headed for, but the capitalists still see political economy according to their activities and interests. The issue here is no longer settled by theory but in the realm of facts and struggle: that is, the class whose actions and perceptions of these actions, embodied in theories, are nearest objective truth, test out their theories in struggle. This struggle realizes theory; thus we must unite abstract notions to action at a given point.

(12) But science is still dominant. For the laws of political economy are none the less valuable as abstractions because at a definite point theories alone are not decisive even as descriptions. We must strip economic appearances of all variations, so as to isolate their common features and pure modes of action. Once we have ascertained these categories, we see how they contain other categories, so to speak, in solution. Thus for Marxian theory, as we shall see later, the concept "surplus-value" holds rent and merchant-profit and interest in varying solutions.

(13) However, the laws we discover, although they apply only to a given society, do not wholly describe that society, for we abstracted them. For most economists, these laws are enough, but not for Marx. For him, these abstractions are a

guide to exploration, once they have been ascertained. Thus the law of value, in Marx, is determined for the totality of production. From it springs another law, surplus-value. But in actual life the profits of capitalists do not appear in this abstracted form, but quite differently. Hence Marx moves from abstraction to a higher *synthesis* that relates abstract laws to varying special facts. Most critics of Marx would have saved large volumes if they had studied his *methods*. Most of his contradictions, so-called, arise from his partial statements, at different levels of his enquiries.

(14) Thus there are only two possible methods in political economy. One is to count up economic phenomena and generalize from the induction. By this method we obtain merely the *sum of their appearances*. Marx rejects this method, urged on him by superficial thinkers, who wonder why he did not pursue this "common-sense" method.

The other possible method is to isolate the laws of political economy by taking up a single specimen, or a given set of specimens, in that economic organization, and by abstracting them from all divergent relations, and by controlling them by rigid sets of assumptions, to discover how they behave under such a mode of enquiry. If the conclusions are rich with significance, one pursues them and discovers congruence with ever wider groups of data. If the subsequent development of these categories leads to still more elaborate and controllable data, then the method is proved exact. We have used a single specimen, or set of specimens, we have enumerated them by a method that enables us to discover their relations, and we have found that by their use we describe ever-increasing circles of economic law.

(15) Thus although abstract laws do not describe the rich variety of concrete economic facts, they provide us with the only method for making this variety understandable, and for providing a basis for a synthesis between abstract law and concrete facts. This can take place only under the appearance of a "contradiction." But if we do not use this method, we shall explain nothing. (See Paragraph 17.)

(16) The reason Marx uses a single specimen, or limited set of specimens, is that no one can begin by counting a totality: he must check a totality by its constituents, and yet he must be sure that the constituents he counts are really those of a

significant total. Marx takes the present capitalist system, a limited field of enquiry, and points out that it is an immense accumulation of commodities. True, land is bought and sold, but commodities, formerly scant, are now made by the hundreds of millions, and this is what distinguishes the system from any previous system, whereas no more land exists now than in a previous system: land is a constant, commodities the variable.

(17) Hence the unit he selects for control is a commodity. He then further assumes that it is exchanged for value. He asks what is its common quality with other commodities when it is exchanged for value. From that point on, he discovers hidden relations in that commodity, since he abstracts what it has *in common* with other commodities and what it has that *differs* from other commodities. Once he has similarity and distinction, his analysis broadens into further distinctions. But he does not assume therefore, that even a single real commodity behaves in this exact fashion. For he is acting on the assumption that this commodity is a perfectly equal part of the totality of commodities and tests it under these conditions. Once he has uncovered all the relations and contradictions revealed by the analysis of this model commodity, he relates his findings to the totality of phenomena in that specified commodity-society. In *Capital,* Volume I is basically an act of abstraction, Volume II a study of the motion of those abstractions, and Volume III an integration of the laws ascertained by means of those abstractions, with the apparently contradictory phenomena of the real world.

(18) The reason for this apparently tortuous method is that according to Marx (as we shall see later in his section on antagonisms and fetichism), the divisions of society require that every relation in it shall appear to be harmonious, even where the contrary is the fact.

(19) There is no science of economics, there is only political economy. Economics assumes that economic action can be understood apart from the political structure. But this is impossible. Buying and selling require property relations, embodied in a code of laws, and defended by the police and courts, etc. Certainly, certain modes of economic action can be isolated only as to theory, but so soon as they must be really understood, then it is clear that economic actions are

within a social and political setting, and can only so be comprehended.

(20) The system that Karl Marx describes is the capitalist system and that only. By the capitalist system he means a society in which wealth is produced socially, by co-operation, and where the ownership of the means of production is in much smaller hands than that of the community as a whole. On the other hand, these owners of the means of production buy and sell the services of labor which, as a class, has no *productive property*. The immense accumulation of commodities so produced are bought and sold in a market, by the use of money or the representatives of money. All men are related to each other by way of their property or through payments. The system is based on profit: that is, profit is the incentive to produce. Specifically, Marx means the age of machinery, begun about 1780 and now spread over nearly all the world.

Consequences of the Unique Marxian Method

The student should master the foregoing enumeration of Marx's method. It is not, strictly speaking, necessary to follow it in order to understand Marxian economic theory. But experience shows that those who understand Marx's reasons for every single step he made, do not waste a great deal of time in following the later elaborations of his theory, and also are enabled to evaluate criticisms of Marx in a much more thoroughgoing fashion.

But at the same time, Marx's doctrines have converted more plain folk than any other, and therefore can be quite easily understood even if they are merely taken for granted as they appear. The bias of this textbook is toward a philosophical outlook in describing Marxian economic theories and in appraising the numerous and powerful critiques that have been made of every one of his ideas. But anyone who reads Marx's pocket-summary of his principal doctrines in *Value, Price and Profit,* addressed to workingmen, knows how easy and clear his leading ideas can be made.

Marx's system has often been described as historical. That is not quite true. He does, say, concern himself only with capitalism, with large-scale production and universal markets. But there have been other historical schools, such as that of Roscher, Knies, Cliffe-

Leslie, and these have denied the importance of theory. Marx assumes the union of history, as limiting the subject of economic enquiry, and of the theory, as guiding one within the limitations.

The Influence of Marx on Economic Speculations

The coincidence of a richly elaborated theory, encyclopedic knowledge, a passionate dogmatism, a universal culture, and a burning oratorical and journalistic style, made Karl Marx the father of Socialism. His political activities stamped his system exactly as the astoundingly successful stock exchange operations of David Ricardo had made him the first of economic realists. Neither the greatest theorist of classical economics nor the greatest expounder of Socialist economy was a cloistered thinker. Their theories were at white heat with practice. Marx's *Capital* became the Bible of Socialism. Not since the Koran has a single book so stirred men's minds and engaged their passions. At one blow, his greatest Socialist predecessors, the mystic Saint-Simon, the sharp, fantastic Fourier, the dour Thompson, the benevolent Robert Owen, were remembered mainly as his forerunners.

But on the political economy taught in the universities his influence was slight, and the opposition nearly unanimous. The Austrian school, so-called, swept nearly everything before it, and soon Marx was considered a pretentious Dry-as-Dust, wholly refuted, and not to be considered as in the great tradition of economics. On the continent of Europe, however, the prestige of Marx remained very high, except that he was thought to be theoretically wrong. The academic world there refused to brush aside the first man since the Renaissance to command international parties numbering millions. But the Anglo-Saxon world simply did not read him. It was asserted that his "cumbrous Germanic style" prevented his being understood.

What the Marxians Say

The Marxians declare that the real reason why his doctrines were rejected was that they were destructive of important property interests. According to them, once it had been found out that classical political economy could end only in his assumptions, it

became necessary (even if unconsciously) to develop a subjective theory of value and price, that is, to strip political economy of any social meaning. Hence Marx's method, which is based on *classes,* was put aside and a series of elaborately constructed scales of psychological preferences were studied instead.

Marx and the Subjective Approach in Economics

For Marx it is useless to speak of valuation unless one knows what *pressures* are behind the persons doing the valuing. That wages are determined by bargain and sale may be true, but what more fundamental situation determines the resistance of capitalist and laborer in holding out until a bargain is struck? Why speak of demand (since demand is effective demand) without knowing socially why whole classes can effectively demand only their subsistence and others superfluities? Abstract demand is unlimited. Concrete demand requires class treatment. As to supply, it is related to the type of consumption possibilities and these are determined by levels of wages.

For Marx, too, the subjective system of value is unhistorical. To relate human demands and psychology in a feudal society where sale was unknown, or in the Inca communalist theocracy to the New York Stock Exchange, will merely tell us that men prefer some things more than others, when they do prefer them. For him it is the suicide of economics.

The Insolence of Marxian Theory

The historical basis of Marxism, linked to philosophical method, renders it, in the Elizabethan sense, hot with insolence. It regards all opposing economic systems as determined by the present structure of society, and as much a function of the capitalists as the production of cloth for the market. It considers itself *scientific,* it considers them *apologetic.*

The economists explain carefully the surface phenomena of capitalism, so as to conceal the dread reality underneath.

To the Marxians, the present-day economists seem in the same state as the Ptolemaic astronomers before Copernicus, who studied carefully how the sun rose in the East, because it seemed to rise there.

Exactly opposing the historical school which asserted that economic events are all we know, the Marxians assert they are the reverse of what we should know. Lenin maintained that to speak of non-Marxian economics was a misuse of the term. If the Marxians are asked to explain the numerous differences of opinion among the "apologetic" economists, they answer that they represent either different segments of the capitalists or the national interest of capitalists having differing requirements. But even they do not assert that these theoreticians are consciously corrupt.

Marxians regard all political economy from the viewpoint of the working class (the *proletariat*). What the economists term objectivity they call residence in the stratosphere above the class conflicts.

There is no such objectivity (see Marxian assumption No. 11, above). The clairvoyance given to a rising class, merely because it is rising, is the witness of truth. Despite the claim of the Marxians that indignation against wrong is a sterile mode of thought, and that no matter what the crimes of capitalists, it would have been folly to oppose that progressive class when they were on the historic upgrade, the Marxians use indignation as a weapon in the service of their class, which they think is on the upgrade.

Convinced that capitalism, no matter how rent with contradictions and weak from continuous catastrophes, can never be overthrown except by the conscious activities of the vanguard of the working class, sustained by mass action, they necessarily *hate* their opponents. This theory of *class consciousness* cannot be divorced from Marxian economic theory. For Marx holds that no economic system exists in and of itself, and so no mere economic development will ever produce an automatic collapse of any system. Marxist economics is the only system that must be transformed *out* of economics *into* politics, to become significant. It is not merely a theory, it is a prophetic system, which analyzes the origin, workings, and destiny of the present system, in order better to supersede it. Political economy here is a fighting doctrine.

Hence the Marxians argue that whether the marginal-utility theory or the relative-value theory be true or false, no one stands to lose a dollar thereby. Therefore the schools tolerate each other, but are equally hostile to Marxism.

The non-Marxians answer that if this is true, then all that any theorist has to do is to cry down the rich, and no matter how wrong his theory, he can always maintain that those who expose his fallacies are lackeys of the wealthy classes. To which the Marxists retort that were academic opponents, as a class, to be converted to Socialism, how long would they be rewarded with good incomes? A few dissenters are always allowed, but not the whole *class* of political economists.

For Marx this makes all conformist systems of economics suspect. For that reason he is acrid, unpleasant, insulting, ungracious, and mordant, and in the case of chopping blocks like J. B. Say and Destutt de Tracy, almost sadistic. It is this fusion of the agitator and the scholar that distinguishes Marx from so penetrating a thinker as Ricardo, so cool, disciplined, original, and fair an economist as Cournot (who was very modest). For Marx modesty was treason to the working class: they had been humble long enough.

How Marx Determines a Class

When Marx uses the concept "class" as an economic category, he is extremely definite. It is often argued that classes are not basic, and that the idea of them is not exact. It is stated that consciousness of kind precedes classes, or that there are such numerous shadings and subdivisions of classes that the idea is not useful. Or, it is held that you can have as many kinds of classes as you wish, depending upon what criterion you use for the division of society. It is pointed out that it is not comprehensive (men are moved more by nationality or religion than by economic interests). Scholars, who hold to the primacy of ideas or of technology, regard Marx's definition as deformed. But Marx answers all such critics with a method derived from Hegel.

He takes a specimen or set of specimens of total economic production. By this philosophical analysis of the commodity, he seeks to find out the social reason for any contradictions he discovers in that analysis. This social division, directly corresponding to the contradictions so revealed, is a *class division* in his sense. He then analyzes the surplus-value derived from such prior analyses, and whatever class divisions are revealed by these further contradictions

are subsidiary class divisions. Hence his use of the term is rigorously logical and exact.

The Marxist Notion of Categories

Until the time of Marx it was held that categories (basic constant concepts) like rent, wages, profits, interest, were fixed, although the societies to which they applied might vary. This is still the principle of most economists. They regard value, demand, utility, etc., as basic ideas which are adapted to differing industrial societies. In the Ricardian theory of rent, for example, it was considered axiomatic that if one field is naturally more fertile than another, the natural difference of their several productions was expressed as rent. Hence there arose the theory of the *three factors,* still generally held. Wages are a factor; whether paid in money by an employer or earned by a man working for himself, they are the same equivalent for the labor factor in production. Rent and interest compensate the other factors, land and capital, whether these are owned in common or privately.

In the case of the Physiocrats, or the so-called Harmonist school of Bastiat, this natural system was considered as harmonious as the movement of the planets in Plato's musical cosmogony. Only greed marred it. The perfectionist, Mercier de la Rivière, declares that since categories are eternal, once man is harmonized with them, economic justice will be perpetual.

For Marx, the *categories themselves* evolve, are fluid. Wages depend on the sale of labor-power, as a commodity, by the worker to the capitalist. Rent depends partly on the legal institution of private property in land, partly on the application of capital to land. Value itself will disappear in a socialist community. "Abolition of the wages system," "Society can do without value," were slogans of Marx and Engels. The price system has a wholly different economic significance from that of barter; it does not merely "replace" it.

For Marx the very counters we use are as much produced and as transient as the class relations they express, at a given level of technique, with a given mass of production, a definitely ascertained market. That these categories are constant for a long period does not mean they are eternal. Hence there is an irreducible difference

between Marx and his critics. When they speak of "value," they mean a single eternal concept that is an adjective of any given object anywhere. When he uses the word, he means the attribute of a type of goods, in a price society, characteristic of that society as against others.

This is extremely important, for the more differences between Marx and his critics are studied, the better it will be to eliminate shadow-boxing and get down to real blows. The most radical difference is just in this treatment of "factors," which Marx rejects. For him the transformation of categories is as fascinating as the transformation of their corresponding production relations.

Two Sciences of Political Economy

If the very categories we are dealing with are themselves transient, then it is clear that we require a science over and above political economy to explain political economy itself. There are diverse societies; is there any science that is above their separate political economies? Marxist theory has formulated *historical materialism*. This more comprehensive science concerns itself with man's total social evolution and that of his institutions. In it the form of society precedent to capitalism (and loosely termed *feudalism*) or the prophesied form (loosely termed *socialism*) are identified and comprehended.

Marxism is like celestial mechanics. We have a formulation for the solar system, a still wider one for the stellar systems, and a still more comprehensive one of their evolution and direction. Thus Marxism takes account of that large section of any order that comes from the past or foreshadows the future. Marxism gives a name to the *dominant* characteristic of our society and calls it capitalism. But it does not close the issue. It understands the theoretically pure idea of capitalism, necessary to ascertain its laws, but knows where they must be placed in a still more inclusive science.

Hence Marxism, on its theory of changing categories, regards any attempt to assimilate modern production to general theories as "vulgar," that is, as stressing merely formal resemblances. But it regards any theory which does not make these comparisons as "mechanical," as failing to understand that man, after all, is the animal

who is primary to all his social manifestations, and that he makes his history, institutions, and ideas, not out of the whole cloth, but out of the textiles at hand.

Marxism Not a Theory of Stages

Marxist theory is differentiated from such ideas as that of the celebrated French founder of sociology, Auguste Comte (1798-1857), who spoke of a law of three stages of society. Even now, according to Marx, we see before our eyes, small business giving way to large, as when the process of centralization of capital began. We see native tribes driven off their hereditary hunting grounds and driven into mining compounds in South Africa, very much as slavery was instituted in the Americas.

True, their significance is altered by the different state of economic development, but all sorts of processes co-exist. Russia, though crowded with antique institutions, repudiated a recently developed capitalism for a classless society, and did not first lop off these institutions, as France and America did wholly and England partially. The development of society is neither *unilateral* nor *fixed*. But that does not mean that one can speculate lazily on their differences. For the basic history of society, primitive communism, primitive agriculture, slavery, feudalism, manufacture, capitalism, are still the only important guides. But they must be studied as real economic forms, not as simply ideal specimens of a definition.

2

The Antecedents of Capitalism

The Historical Background of Capitalism

Marx counseled his friends to begin a study of his system, even of the first volume of *Capital,* by a careful reading of the historical sections. In this chapter, we shall summarize Marx's and, above all, Engels's summary of those features of past society that help us to understand the basis of present-day political economy.

Queries

What is the origin of all the basic counters of political economy: of contract, property, state, capital, labor, the family (an important economic unit), taxation, money, inheritance, interest, wages, rent, profits? How have these complex relationships altered? Are they everlasting? Have they existed since we stopped swinging on branches and playing with coconuts? Do they represent human nature? Can it ever change? What preceded or can follow "individual incentive for gain"? If these vary, why do they vary? For whose benefit? Are classes primordial? Temporary? How about auxiliary institutions? Why are priests paid? Scholars? Other nonmilitary, noneconomic leaders? Why aren't women slaves? Why don't the strong enslave the weak, buy and sell them, instead of paying them wages? Or, the opposite? Why do the poor, who almost everywhere outnumber the rich, not despoil them? By what magic does a small minority hold on to its power to derive rents and profits? Once these questions are formulated, it becomes obvious that no economic questions can be answered by economic theory alone.

The classic work of Engels on the *Origin of the Family, Private Property and the State* gives the Marxist answers. Engels adopted, in the main, the conclusions of an American ethnologist, Lewis H. Morgan, as embodied in his notable *Ancient Society* (1877). Since that time anthropologists have deviated far and wide from Morgan's

conclusions, but the socialist thinkers have continued his viewpoint.

Engels's analysis of savagery and the earlier stages of barbarism are not cognate to later capitalist development. But the upper stage of barbarism produces a revolution which enables us to understand our own economic system.

Primitive Barbarism

Under primitive barbarism small tribes were gathered in circumscribed areas. Hunting grounds were near their temporary settlements and beyond there was a neutral hunting ground before one reached an area understood to be reserved to another tribe. Inside the tribe the division of labor was sexual. The men hunted, fished, fought, and, in the case of berrying or primitive agriculture, took care of the plant-food. The women took care of the house, or the wigwam, or tent. They cooked, made clothing, wove the cloth, dressed the skins, raised the children.

Each sex owned the instruments it used. Women and men were equal; if anything, women were the more highly regarded.

Primitive communism was widespread, perhaps universal. Not only did every member vote at all councils, but no one would have understood any other system. There was no division of property, hence no classes, and, of course, no state. The tribe was its own state, rule, family. Whatever was used in common was owned in common, such as canoes, arrows, stone instruments.

The organization of society was gentile: all power was in the *gens,* that is, in a group of related persons. The *gens* were supposed to have a common descent. They retired the chief and sachem and other weighty personages who had no special sanctity. Among the Iroquois the war-chief was elected without reference to descent, but not the peace-chief, the sachem. He came of the maternal family of the previous sachem. The sachem's advice was not effective except as that of a wise man who ought to be listened to.

The property of any dead man belonged to his *gens.* The inheritance rules were complex as to relationship, but their essence was that all belongings were made over to the *gens.* The *gens* also avenged its own. Conquered tribes were sometimes admitted into the *gens* by adoption.

But society soon became more complex, because of numbers. Tribes were united into confederacies for purposes of treaties as to hunting grounds and for war against common enemies. But the warriors were free groupings. There were no class of soldiers, no police to enforce decrees or punish dissenters, no nobility or privileged caste, no judges (in fact, among some Eskimos justice was decided by the tribe listening to lampoon poems by two claimants for a decision; the better poet obviously was innocent), no prison, and, of course, no lawsuits. Despite the complexity of hunting, fishing, battle, peace treaties, preparation of instruments, common manufacture, household difficulties, this economic organization, based on no private property in the means of production and war, had no institutions that separated one man from another. Blood-tradition was enough to hold them together.

The Beginning of Class Society

But this state of society depends on a primitive economic organization. There is no permanent surplus that any class can take from the others and still have them survive. So soon as the mode of production changes, history becomes a record of classes, that is, of a minority seizing productive lands and goods and of imposing its will on a majority.

How? It would seem an impossible evolution. But when cattle were domesticated, the abundance of meat and milk gave the cattle-raising tribes an enormous advantage. They were better fed. Their goatskins were prized. Goats' and sheep's wool gave them an abundance of textile materials. Exchange, rare indeed among the backward tribes, was now worth while. The cattle-raisers and sheep-raisers had a surplus. They exchanged this for the primitive fabrications of the less favored tribes.

Cattle were the end-all. They became money, that is, the measure of exchange. (The Latin word *pecunia,* money, is derived from the word for cattle.) Exchanges became habitual, the basis being the acquisition of domestic animals for milk, meat, wool, and hides. The sporadic rewards of hunting bore no comparison to this peaceful and ordered mode of obtaining animal products.

The need for feeding of cattle during the winter resulted in the

planting of forage. Once grains became known, regular sowing of wheat, barley, oats, and in the New World, maize (Indian corn), became common.

The grass regions, however, specialized in hay. A crude agriculture came into being. But as yet the older gentile society and, above all, the most prized tradition, common ownership of the land, still resisted the change of occupations. But as agriculture became more advanced and it was necessary to assign special lots of land to definite families, the *gens* was faced with a fatal solvent, that certain ways of gaining a living were no longer followed in common.

The weaving loom made the woman's job more restricted. It was compact and capable of being used by only one family. Once bronze, copper, tin, and other metals were extracted and melted and employed in the arts, the division of labor became intensified.

Trades arose. When gold and silver, lustrous and hard to obtain, were made known, the decorative arts gained a new impetus, and the covetousness that had been developed by exchanging cattle and sowing fields was stimulated. Men now thought outside the *gens*, outside ~~of society.~~

~~The~~ Origin of Slavery

The gain in resources and in the arts produced a surplus above mere animal wants. But everyone had to work harder than in primitive society. Labor became important, precious. Soon expeditions against other tribes that had formerly led ~~to their being eaten or exterminated~~ or, at best, adopted, changed character. They were useful for labor. They were made slaves. Here, then, in the conquering tribe, we see two groups, the tribe that owned the others, and the defeated tribe, the slaves.

The Patriarchal Family

The male now became immensely important. He was a shepherd and cattle-tender, a farmer, a fabricator. Women were still in the home, but relative to the occupations of the men, they were inconsequential, that is, relative to the production of basic goods. The patriarchal authority grew and the position of women declined. It was the man who captured slaves, the new labor-power. He

claimed his rightful reward and he shared the proceeds of his skill and spoil with his woman more as a matter of grace. Once woman was defeated in her stronghold, the home, the monogamic or, rather, the patriarchal family was instituted. Gentile society retreated before this new institution. Marriage replaced the old pairing arrangement.

The Rise of the Town

Iron now appears, with it the sword and the plow. It is, says Engels, "their heroic era, the last and most important raw material to play a revolutionary role in history, if we except the potato." With iron implements, the forests were cleared. Man, at least, changed the face of nature on a big scale. With new implements, stone was lifted to great heights, and settlements were defended by walls. The town was born, as against the temporary aggregation of tents or the long-houses of wood. Except for the adobe dwellings in America, this became the settlement form. The town became the capital of the federation of tribes, for it was relatively secure.

The Rise of Trade

As arts and crafts advanced, unprogressive, stupid man learned to look about, to be ingenious, to experiment. The olive and the grape were used to produce oil and wine. From grains, derived from forage, beans and peas and other vegetables came to be known. The useful plants were separated from the noxious and were reproduced. Once farming became diversified, the arts skillful, and the towns large, the foundations of gentile society crumbled.

Exchange and trade broadened. Ships at sea became large. The longboat was succeeded by sailers. The possession of slaves made it possible to drill whole galleries of rowers, so as to propel the ship at a great speed. In order to exchange goods with distant tribes, bars of gold and silver, the most difficult metals to extract, slowly replaced cumbersome cattle as the universal equivalent in exchange. But as yet they were merely preferred, not as later, unique.

The Breakup of Communist Society

With this development of trade and industry and isolated farms, those that were most aggressive and cunning held goods, whereas

others (even in the conquering tribe) fell behind. Trade created a new man, and since there was a surplus for all above animal requirements, he saw no reason to share his superfluity with less successful members of his wife's *gens*.

The patriarchal marriage was based on the acquisitive, successful male. He knew that he thrived on production and lost by division. Slowly the wealthier men broke up the communistic groups; they then claimed the hereditary right to pasture or to farm definite sections of land. After a time the communal control of land was reduced to a shadow, although its memory has never wholly left society. Land is still more elaborately conveyed than any other form of property and the state still cherishes eminent domain over it, and in England, for example, it is nominally held of the crown. It was the last right lost by the tribe.

The family, owning things separated from every other unit, living apart, aiming at income for its group alone and subject to the legal authority of the father, became normal, and has subsisted to this day as an ethical ideal.

Thus were accomplished the three great divisions, master and slave, rich and poor, woman less than man, and another, a geographical division, town and country. Society is split. Functions are divided and there is a corresponding inequality of rights. And yet this accumulation of social distinctions and, so to speak, injustices, is a terrific instrument for enforcing the division of tasks and so increasing total wealth.

The State

Increase of wealth and food led to increase of population. The thinly peopled world of the early barbarians gave way to densely settled areas. Some, like the valleys of the Nile and the Euphrates, resembled modern populations in scope. Hence arose the union of city-centered tribes into territorial units. The state, ruling a definite area (which seems so natural to us), replaced the tribal confederacy based on blood and on temporary hunting grounds. The only survival of primitive right is found in titles, later on, such as Louis Philippe, King of the *French*. But this is merely archaism, a memory of tribal days.

The democracy of the gentile society was still a strong tradition. It was preserved in the form of military democracy. Defense and aggression were the main business of the state. War, once a necessity to obtain hunting grounds, was now fought for *plunder,* for superfluities. The importance of military leaders increased. The leaders, as family patriarchs, sought to keep power in their little units, their families. Thus royalty made its bow. The king's principal cohorts, on the same principle, became nobles.

Everything that gentile society had built up for the commonalty, for the organization of tribes, was transformed into its opposite. A changed mode of production had turned the gentiles against each other. "Man is to man a wolf" became the wisdom of the Romans.

Money

From this time on conflicts between the country and city became normal. In classic antiquity the city was everything; in feudal Europe centuries later, the country system of lords, lieges, and serfs was the center of power.

In the towns a third class arose whose function was exchange: the merchant, the businessman. For the first time a class arose apart from the direct production of wealth. (The artisan had first been separated from the farmer, but he was a producer.)

Their skill in exchange soon made them a special group of rich men. Under their inspiration and needs, clumsy ingots of gold and silver were made into convenient coins. Thereby exchange was made available in small amounts and barter retreated still further. As these coins commanded any and all merchandise, land, slaves, wives, and even bribed the king, the fountain of life was discovered. One commodity stood out and commanded the others. It became the unique object of desire. It has so remained, for nothing can ever replace a universal ultimate source of power.

The new land laws of the rich men permitted them to sell the land held in trust for the *gens.* For now land could be exchanged for the new coins.[1] The world was for sale and everybody knew what to accept.

[1] Sir William Ridgeway has graphically described the wanton effects of the invention of money. See Bibliography.

The mortgage was invented. The rich loaned to the poor and took their land as security. If that did not suffice, they bound the debtor, their own flesh, their own tribesman, to their forced service. It was not long before there were far more slaves and bondmen than free citizens.

No sooner were men settled in towns than their greed for gain set them to colonizing and emigrating. The poor often wandered to seek work. The *gens,* once united, was now scattered. Here and there an institution like the Olympic Games or the return of a warrior's corpse for burial, or cremation in the gentile tombs, reminded men of the past. The mixed *gens* in every city, with no social cohesion left between its rich and poor members, plus the strangers and slaves, resulted in a mockery of the gentile constitution. The members of the old families, now wealthy and distinguished by their descent, created a democracy, especially in the Greek cities and in Rome, in which the poorer members of their *gens* played a subordinate part. The so-called democracy was really an oligarchy of a small section of the population, the freemen.

Codes of Law

Society is now divided into classes. As a result, laws are enacted for the regulation of their relations. Hire, purchase, and sale, slavery, debt, foreclosure, theft, all the infinity of claims and offenses around private property, are made the subject of long, written codes. These are interpreted by a professional class of lawyers. Judges, picked from among the "educated" classes, interpret the law for the "uneducated."

Guards are set up. The soldiery becomes professional rather than civic. Taxation maintains a separate body of officials. The modern state, arbiter of class conflicts, is complete. It prevents the classes from tearing each other to pieces. But it holds power only because it consecrates order on the basis of property institutions as it finds them.[2] Hence law and order, absolutely necessary to a

[2] Not that the poor and the slaves accepted this new system easily. Ancient politics is a theater of ferocious class conflicts. Slave revolts were common and shook society to its foundations. The decline of slavery, the granting of universal citizenship by Caracalla (A.D. 212) are outside my scope.

divided society are, in essence, conservative. At rare moments the classes are balanced, and the state is genuinely above the class interests of its members. It then has an independent life. But that never lasts long.

Taxation

The expense of the state mirrors the intensity of class conflicts. In pioneer America, the state scarcely existed. For Jefferson, government was a needful nuisance but always to be sniffed suspiciously. A free farming population with only a few rich men could be governed directly by town meetings. Before 1860 there was practically no national debt and as late as 1913 no income tax. Today American taxation absorbs a fourth to a third of the national revenue, and in Europe so great a part that it is necessary to depreciate the currency at short intervals to conceal the intolerable burden. For the Marxians this measures the stress of the class conflict within these European lands.

It will be seen from the foregoing summary of Marxist state theory that for it the change in the mode of production was the lever of history. Not that its view is as schematic as that given. Necessarily, the evolution of the family, private property, and the state nowhere followed this outline, either in chronology or even in an exact repetition of the idealized processes.

For example, the Peruvian empire, based on only one domesticated animal, the llama, and a non-iron-using culture, was nevertheless a state. But because it lacked iron and cattle, it was a theocratic communalism. The Germanic conquerors of Rome erected the feudal system, rather than a new oligarchy.

This history (mostly taken from Engels) is indicative rather than programmatic. It stands on one great principle, that the changes in the modes of production are the foundations of private property, the family, the state. It therefore considers modes of production the primary study of the economist. Modes of production are also the basis of the economic critique of capitalism. Upon a necessary change in the mode of production it makes its prognostic of Socialism.

The Queries Answered

So we see the answers to the questions raised. Property, the state, the family are answered. Contract arises out of purchase and sale. These arise out of transferable private property. Capital is the accumulated product used by its owner to exploit a laborer. That arises from class divisions which in turn come from private property.

Taxation maintains the state, that instrument created by class division. Inheritance proceeds from the patriarchal family, which is itself conditioned by the modes of production that wrecked gentile communism. Wages are self-explained. Rent and interest are consequences of land-seizure and loans, due to differences of wealth.

These complex relationships are recent so far as the annals of man go. Classes are not primordial but derive from specific needs for production. Until the present, the incentive for gain has been paramount in increasing wealth. It is the psychic servant of private appropriation.

Intellectual and spiritual classes either facilitate production (scientists, educators), are apologists, or serve as deflectors of class conflicts. The strong did enslave the weak, but slavery was an expensive system of production and serfdom interfered with the efficiency of the manufacturing system.

The poor do not overthrow the numerically lesser rich because of the state, whose special function is to keep the division of classes intact by using power (police, army, etc.), external to society. The community is disarmed, except at times when the state requires its services (conscription in time of war). The democratic state is, by its nature, less separated from the people, but Marxist theory holds that it is dubious whether the possessing classes would accept its orders were such states to express a revolutionary content, that is, were they to threaten productive property. (Examples: France, 1792, 1871; Russia, 1917; Spain, 1936; U. S. A., 1861.)

The Decline of Slavery and Rise of Feudalism

The Roman Empire perfected the state apparatus. Its fiscal system became cumbrous, its officialdom excessive, and its production of grain declined as the slave method of production wasted the soil and put a stop to population growth.

The barbarian invasions of the three centuries from the fourth to the seventh gave power to a small number of barbarian conquerors, although the conquered population remained almost everywhere in a great majority, and was made to work for its subduers.

The towns declined to mere hamlets; great cities were reduced to villages. Civilization, in the sense of size of crops, of live stock, of artisanal pursuits, went back and the consequent intellectual activities were much reduced, though perhaps not so completely as has been thought.

It is doubtful whether by the thirteenth century roads, farming, and cattle-tending had not already surpassed the Romans and it is doubtful if Catholics, for example, would grant that the builders of cathedrals and the subtle scholastics were intellectually inferior to the effete Roman writers and architects of the later Empire.

Slavery had everywhere been reduced, and serfdom, or the attachment of peasants to the soil, subject to tribal fighting lords, had become a general system. The monarchy was loosely established. Means of communication were poor and localism throve once more.

Feudalism would not have surpassed the limits of slavery production, in and of itself. Slave production was limited, of course, by the fact that consumption was reduced since four-fifths of the population lived on kind, and bought nothing.

But feudal society, by dissolving slave relations in the towns, allowed a fatal loophole. The country was integrated in local, closed systems of production, but in the towns a relatively free population arose. For the first time the great mass of people in any given setting were free to work and buy and sell.

Marc Bloch holds that improved modes of cultivation led to surplus production on the manors, and its sale in the towns. The use of this money on the manor caused luxury buying and so led to debt. The merchants got the use of the king's armies to impose "law," that is, to collect these debts from the predatory nobility.

It was to the interest of the kings to encourage towns as the counterpoise to the feudal nobles. The towns had money; the nobles could give only services and some payments in kind. By the thirteenth century, the free crafts and guild fraternities of artisans, the groupings of merchants (except the Jews, who were the

king's appanages, and the non-landed clergy) had built up an estate of the realm, the burgess: his rights are already important in Magna Carta in 1215 and in the policy of Philippe Auguste of France. In Italy the towns, enriched by Levantine trade, grew more mighty than the country nobility.

From Feudalism to Primitive Capitalism

The fatal loophole of large free populations in the town was to crack feudalism. The monarchy grew stronger, the nobles weaker. The pressure of the towns and their comparatively free craftsmen and traders splintered the feudal peasantry. Their revolts, unlike those of the slaves in antiquity, were more successful, because they had a true alternative. After the Black Death in England, and to some extent in Spain and Italy, the peasant revolts, however brutally repressed, resulted in an improvement so great that for two hundred years real wages rose and serfdom itself declined.

Once the feudal lord paid money wages, he was reduced in resources. He repaired to court and became a follower of the king, himself dependent on the towns for largess. Thus were laid the foundations of the modern world. The merchant and the production of goods for the merchant are the same as in the ancient world. But the market is greater in scope. Freemen soon far outnumber serfs.

The breakup of the Church as a taxing and landowning system in the sixteenth century ended the last barrier to the modern system. For the monasteries, such as those of the Benedictines, were anticommercial and were large in productive scope. Protestant countries transferred the church lands to merchant and usurer parvenus, the new nobility,[3] who repressed the peasant revolts as brutally as did the old lords. The Catholic countries defended the Church spiritually but made it secondary to the state. Now there is one taxing power, one source of authority, and one way to make money, wage-exploitation of "free" labor.

NOTE: Consult the appendices for critical and detailed observations on the historical scheme of Engels.

[3] Of the seven hundred alleged nobles of England today a dozen or so precede this plunder, in descent. The others date from the postfeudal graft.

3

Origin of the Capitalist System

The capitalist system, as studied by Marx, is a European product. It was an outgrowth, indirectly, of the "feudal" system, as modified by the free towns, with guilds and traders, and later, still more highly by workshops and large mercantile and finance companies.

In no other continent did the economic development transcend the merchant and artisan class, although in 1500 the productive capacities of the antique and polished societies of India and China may have exceeded that of the best parts of Europe, and certainly they were more populous.

The Arabian Nights testify to a society of keen traders and adventurers, saturated with commercial traditions. India developed village communities, largely self-contained, with an extraordinarily high level of workmanship both in weaving and in beaten metals. The skilled horticulture of the Chinese, as well as their interesting discoveries of print blocks, gunpowder, ingenious machines, rudimentary chemical devices, their silks, embroideries, and potteries, testify to a high material culture. The same was true of the workmen of Samarkand, the carpet-weavers of Persia, etc.

The intellectual level was distinctly as high as, if not higher than, that of medieval Europe. The poetry of the Chinese and Persians, their administrative organizations, as shown by the unification of Chinese culture and the inauguration of the scholarly Mandarin system, the enlightened early Mogul administration in India and the military talents of Turks, as well as the scientific and deductive curiosity of the Arabians, gave little reason to think that the primacy of culture, wealth, and power would not rest forever in Asia.

Even in America, the Spanish conquerors found to their amazement, in Mexico, in the Maya districts of Central America (far higher than the Aztec), and above all in the masonry and govern-

ment of Peru, a state of society to which they were not greatly superior in material accomplishments, if the superiority is to be allowed at all.

Yet, despite this, none of these civilizations were to develop capitalism except the Europeans (later, through forcible intervention, the Europeans conferred this boon on them). *The capitalist system is a specific product of Europe* and of colonies peopled by Europeans.

The technical origin of the capitalist system was dependent on a prior accumulation of capital. Without it, there would have been no such complex development. How did that primitive accumulation come about?

Primitive Accumulation

At the end of the Middle Ages, Europe, though far richer than during the so-called Dark Ages (before 1100), was still both thinly peopled and, outside of Northern Italy and Flanders, almost wholly rural. The feudal relations prohibited, or rather obstructed, any gain in wealth. So long as goods were produced on the manor, paid to the lord in kind, and he in turn provided the king with men-at-arms rather than with money, production was fundamentally on a manorial basis. The towns, with their merchants and usurers, had begun to develop trades, markets, money. From them, kings who had to obtain revenue over and above personal homage, received goods and coins and, in return, granted charters and exclusive trade privileges. But production was still done only by hand, markets were almost wholly local, and, as no one but a master could employ an apprentice, production could never advance seriously outside traditional rules.

Cities were ridiculously small. London had about 40,000 and Paris, the queen of Europe, probably under 200,000. Only two cities existed with over 100,000, besides Paris—Venice and Naples. Marts such as Bruges, commercial and industrial metropolis of the North, had about 60,000. The total population of non-Moslem Europe in cities above 20,000 was probably under a million, or about that of Marseilles today. England probably had no more than three million inhabitants.

Population Better Off than Previously

That is not to say that the people were in misery. There is reason to think that the free workmen and the yeoman farmers of England and Aragon and the Rhineland, for example, made up a population relatively happy, the memory of which is enshrined in the phrase "Merrie England." [1]

But of wealth, measured by our present standard, that is, total quantity of goods, the amount was pitiable. It could not have been one per cent of that today.

So long as the mass of workers were either bound to the soil, or owned the soil, or were working on their own account, or were bound to those who had trained them in a trade and whose footsteps they must follow, the rising merchant class and manufacturers were helpless. They lacked one necessity, to obtain "free" labor, and that necessity had to be created in two ways. One was the enclosure of the common lands and the expropriation of the farmers. The other was the extension of the world market, which ruined the guildsman, whose limited trade required a small market.

The Universal Market

The outstanding change from the Middle Ages was the extension of *anonymity*. The capitalist system is anonymous. Whereas formerly tinker Tom Smith made pots and pans for the goodwives of Coventry or the weaver Jacques Bonhomme glowingly showed his wares in the cathedral place of Chartres to the good dames Jeanne, Marie, and Françoise, with whom he had played from childhood, the market was known. Everyone knew for whom he was producing, knew the names of his clients, just as today, in suburbs, the remaining independent grocer still knows the tastes of every family he serves and that there is no use stocking up on candies because the children of Mrs. Jones and Mrs. Robinson have the mumps.

But by the end of the fifteenth century, the development of towns due to the Oriental trade and the gains of production due to primitive manufacture, had already changed the face of markets. Bruges

[1] This golden age has been denied. Exaggerated, perhaps, but it was a period of continuous relative prosperity.

was an *entrepôt* and the shepherds of Norfolk consigned their fleece to Mynheer this or that, without having met him.

The commercial fleet of Venice left annually for Crete and the Levant, and combined the offerings of hundreds of makers of stuffs to exchange for carpets made by the subtle Greeks of Smyrna.

The Rise of City Merchants

So far, though, there is no essential difference from Sindbad the Sailor. But locally the differences grew too. In London, Cheapside became a street crowded with shops, a wilderness of hanging signs (the people could not read), where a clatter of apprentices cried to strange passers-by, "What d'ye lack?" The cities, as the people were driven from the soil, filled up quickly. The suburbs outside the walls became the center of crime and slum life, and the ill-assorted paupers knew few of their neighbors, if any. For the first time since antiquity men lived with human beings they did not know. Society, formerly maintained by the mutual ties of manor and guild and church confraternity, was now bound together by the constable and the dread of jail. The market for goods reflected this. The customer was anonymous. Journeymen became less careful of their products. Cheating became the rule. The "smart" trader, the "slick" salesman became the ideal, the clever boy. The less adept took the hint and became pickpockets.

Writing Replaces Speaking

As St. Paul had preached the Unknown God on the Areopagus, so the unknown market, at home and abroad, the unseen client, became the object of trade. Now the conditions of capitalism were fulfilled, for there was a floating mass of helpless humanity, a crack of the neighborly relations of selling. Chaffer, higgling, the age-old modes of bargaining, were replaced by price lists and correspondence. The pen, formerly used for scrolls and royal edicts, now became the weapon of commerce. The scribe served trade where once he served God. (But his name, "clerk," the cleric, survives.) The Bible was printed but the quill was transferred to business.

The state, too, occupied with trade, developed boards of secretaries. Red tape bound the primitive offices. Geoffrey Chaucer was

a forerunner. By the time of Philip II and Elizabeth correspondence had become a disease. Human contact diminished. All social relations on a big scale, trade and political, were anonymous. That assisted the market-trade at a distance.

Moslem Economics Reduces Accumulation

By 1500 the European utilization of certain inventions was already ahead of their competitors. Navigation, through the compass and sextant, husbandry by reason of an ingenious method of harnessing horses and sharper tools, better roads than those of the vaunted Romans, printing from movable types, and artillery, were superior, on the whole, to Asia's. At first, the fall of the only really rich city in Christendom, Constantinople,[2] gave the Moslems the advantage, but this was soon counterbalanced by the conquest of Spain by the Christians, and Spain looked upon the Atlantic.

Whatever may have been the superiority of Moorish over Castilian society (and it was competitive, at the least), the conquering destiny of Spain and the decay of Morocco point to a more mobile, adaptive society in Western Europe.

By 1600, with the conquest of half Europe by the Turks, it looked as if the thousand-year battle of Cross and Crescent might end in a Moslem triumph. At least most of Europe thought so. The roads to Asia were barred, the road to the Atlantic was open.

But Turkish society was based on a pastoral, nomadic organization, and regarded agricultural societies of Christians exclusively as taxpayers (mostly in kind). For this reason there was little accumulation of capital in the regions they conquered (Ukraine, Rumania, the Balkans, Hungary, Greece). Holding the conquered Christian trader, whether Greek or Armenian, in contempt, Turkish commerce stagnated. The greatest empire in Europe and the Levant was arrested in commercial development. Its military basis, the Janissaries, was *communistic* in organization!

How Capitalism Arose

"The expropriation of the mass of the people from the soil forms the basis of the capitalist mode of production," is Marx's dictum.

[2] Even Venice, in its prime, was not a fourth as rich.

So long as the mass of the people were bound to the soil, either as serfs, or as servants, or as lieges or, better still, as freeholders—that is, yeomen or, in the most favored instances, as small capitalist farmers, men of means with large barns and heads of cattle—whatever the condition, so long as town population was small and rural population the rule, it was impossible to obtain a supply of labor for the newly rising workshops in the towns.

Without a large group of persons forced to work for a living through having no attachment to the soil, it was impossible to combine labor. The artisans, long resident in the towns, worked with their own tools. A large floating population of *plebeians,* living by a hundred devices from theft to chicane and beggary, filled the towns, especially in the Elizabethan time, but these were not as yet laborers but the first mass of surplus population driven off the land.

Soon they were impressed into service as the harsh poor laws delivered them up to the mercies of magistrates. But it was not until the feudal lands were parceled among favorites and speculators, and the church lands despoiled, that millions of their dependents were expelled from family farming to make room for sheep and forage crops.[3] Wherever this process was carried out to the full, as in England, the Low Countries, and Northern Germany, the foundation of a labor supply was raised. Where feudal custom, linked with the church, retarded this spoliation, as in Spain, industry developed slowly; in fact, in the case of Spain, it even went back, despite the abundant supply of precious metals extracted from America.

Free Labor Essential to Capitalism

The proletariat, in modern Europe, and latterly in America, is free labor. It has no *gens,* or tribal relation, like most of the antique Roman proletariat. It is not bound to observe rules in a guild, as in the Middle Ages. It is not in serfdom or slavery, like the old Russian *mujik* before 1861, or the American Negro before 1863.

[3] The Anabaptist communism of Thomas Münzer, 1525, is terrific, and the agrarian communism of Winstanley in 1650 in England anticipates Lenin even in details! It was the peasant's answer to this spoliation.

It had (until the intervention of Fascism) the right to sell its labor freely to masters who were supposed to bid competitively for its services. It could leave any job, as soon as its period of contract or engagement was terminated, and sell its labor-power again to another master, whose offer might be more advantageous. While this legal freedom, according to Marx, is masked slavery, he nevertheless insists on the high importance, from the economic viewpoint, of this freedom. It reminds one of the celebrated quip of Anatole France that in France, Rothschild and a beggar are equally punished for stealing a loaf of bread or for sleeping under bridges. Still this civic equality, however ludicrous in social content, is a gain. It was necessary for the Rothschilds to allow such a system to endure.

The freedom of labor, whatever its social content, is an economic need for capitalism to develop its full productive forces. A man must be free to change his trade so that changes in technique can be immediately made available. A laborer must be free to change his domicile, if his labor can be exploited to yield the most profits. Until this freedom, including the mobility of labor, was attained, capitalism was limited and weak. Wherever capitalism abandons this form, as in Germany at the present time, for the Marxians it indicates a hardening of the arteries of the capitalist system. It shows that it is no longer accumulating a real capital fund out of the creation of new values by labor, but that it is centering on the unproductive use of labor.

Class Legislation against Labor

But in order to make this labor free for its uses, it was first necessary to enslave it so that it could not use its freedom to other purposes. Labor, driven off the soil and abandoned in the cities, was forbidden to wander under the vagabondage acts. The poor were bound to their parish by the niggardly poor laws. The *statute of laborers,* the crowning piece of class legislation in England's history, forbade masters, under severe penalties, to pay more than a minimum wage for labor. Queen Elizabeth's maternal solicitude for her people was consecrated in a series of whippings, pillories, stocks, driving of awls through the ear, and other pleasures reserved for the obstinate laborer who tried to obtain more wages, and by a

series of fines for the master who raised the wages of these wretches. The colonial companies were presented with laborers kidnaped by dragoons and magistrates, to be shipped to the plantations. The mercantile marine and the Royal Navy were recruited by press-gangs who took up the poor men and tore them from their families.

From the Wat Tyler rebellion (1381) to the Reformation (1529), English labor, to take one instance, had enjoyed relatively humane treatment. The shock of these brutal laws was required to break its spirit and make of it a miserable wage worker, resident in slums. And in England, the condition of labor was relatively better, even so, than in most of Europe.

For all the efforts of the magistrates and the statutes it took a long time for labor to be pried from its privileged position. The average agricultural laborer worked four days a week, even in the seventeenth century. To get him to work six days for a master was not an easy task. A religious factor in the North of Europe was the substitution of Protestantism. This eliminated the numerous saints' days and made men more toilsome. Later, the competition of Protestant lands became so severe that the more industrialized Catholic regions, such as Belgium and Bohemia, followed suit and decided that saints could be just as well honored in the factory as in the church.

American Bullion Speeds Capitalist Development

By 1600, the production of goods, movement by sea, exploration, conquest, seizure of the precious metals in the Americas,[4] impressment of slaves into the newly-discovered plantations, murderous extermination of the aborigines in Peru, had led to an unprecedented volume of trade and this in turn to a perfected machinery of exchange. The Italians developed bookkeeping, the bill of exchange, banking.

Capital had a fluidity never before known. Despite the consistent triumphs and political brilliancy of the Turks, truncated Christian Europe advanced steadily in wealth. Not even the religious wars that lasted over a century, nor the everlasting state

[4] Engels says American silver and gold cracked open every pore of the feudal skin.

bankruptcies, as in the world crash of 1562, nor the reduction of Germany to a skeletal population, could counterbalance this new impulsion toward the accumulation of capital.

Corruption and Plunder

Statesmen become *crooks*. Treason is nearly universal. Raleigh and Cecil sell out their country to Spain. Money is a mania. No one can be relied on. Fealty is missing. Venality replaces sworn obligation.

Luxury maddens the rich. The spices of Celebes and cinnamon and cloves come to Europe. The brother of Pizarro goes to the Amazonian forest for cinnamon, esteemed nearly as much as the gold of Cuzco or the unlimited silver mines of Potosi.

The discovery of Peru and Mexico shakes the world. For the first time in history, gold and silver are poured out in abundance. Prices rise. They more than rise, they become fantastic. The profits of traders, once reckoned in shillings, are now computed in pounds.

In Spain all feudal relations crack. Whole provinces seek to escape to America to make a fortune. The Italian cities wither, their Eastern trade becomes inconsequential.

Where once social changes took decades, they now take months. The old guild-worker cannot compete in this whirl. The merchant, the usurer, the trader, become general. Slow-witted serfs are replaced by nimble calculators who can carry a thousand figures in their heads. The pompous, slow, and steady noble becomes an object of sport, not of veneration. Country boys, gone to the city, like Shakespeare, hold him up to the scorn of town wiseacres. Molière buries him as M. de Porceaugnac. In other words, society is *dynamic*. The demand for goods is no longer fixed. *Fashions* change quickly. In the fourteenth century, pointed shoes took fifty years to make their way. In Elizabeth's day, father and son, walking together, wore different clothes. Only the avid merchant and the aware manufacturer could stand up to this strain.

Variety of Goods

The variety of goods bears no comparison to that in previous ages. Pepper takes its place beside salt. Forks are used. Mag-

nificent wooden staircases replace spiral stone steps. Quinine cures fevers. The potato creates a new population in Ireland and Pomerania. Tobacco becomes a necessity. Men travel for pleasure. They know more of other lands, they learn their languages. It all helps trade. Cotton goods replace woollen. Women's clothing becomes graceful and poets now speak of the liquefaction of their clothes as they pass. Show, vanity replace piety, implicit obedience.

The Bourgeois

In other words, the *bourgeoisie* arises. Its roots are in money. Its ambition, despite some feudal survivals, such as the love of a title, is money. It is free to travel, buy and sell. But it is rich. Labor too is free. But it is poor. From now on, *socially,* there is nothing to stop capitalism.

The Rise of Holland and England

With the change in society came a profound change in geography, that is, economic geography. The Atlantic lands benefited by the newly discovered sources of plunder; Spain first with Portugal (especially in the East), later Holland, the real mother of mercantilism.

England slowly advanced. Owing to her island position, which meant that unlike Holland and France she needed only to defend herself at sea, the English king had no army. The bourgeoisie found it easy to defeat him and clear the way for an unimpeded mercantile society. Unlike Holland, England joined trade to manufactures and, by the defeat of France in 1763, consolidated its permanent position of mistress of the world. England, land of fen and mist, Holland of rain and swamp, became the money lands, and men mused over the canals of Venice, whose principal product became sonnets, odes, and other invocations.

The Middleman

Now the wholesaler, jobber, factor, become important. They add more links to the chain that separates the producer from the consumer. The production of wealth is now *blind,* it takes a chance. Nor have all the sales charts and graphs ever rendered back to it the knowledge of the market it had in the medieval town. To get over this difficulty, goods are standardized, produced in mass. At this

point the manufacturing system thirsts for the machine. The market it has created is too much for it.

Investment

In the meantime, the robbers of the common and church lands, the despoilers of the peasants, the robbers of the colonies, the slave-dealers, the assassins of native chiefs, the pirates and "adventurers," are crammed with money.

Despite the enormous output of the precious metals, they cannot consume all of it in luxuries. Manufactures allow of the only field of investment, as does trade. For here, as the new phrase goes, money begets money. Instead of squandering the proceeds of plunder, men seek to re-enact the system of nobility, to pass on increased fortunes to their children. Where St. Thomas Aquinas had inveighed against interest as the taking of money for God's free gift of time, the Renaissance consecrated it as good usance, and finally Bentham in England (and in Balzac's novel, the miser Grandet) declared it to be a supreme good of man. Shakespeare, himself a money-lender and quick-trigger lawsuit enthusiast for unpaid loans, makes his Shylock explain:

> *Antonio*: Was this inserted to make interest good?
> Or is your gold and silver ewes and rams?
> *Shylock*: I cannot tell, I make it breed as fast.[5]

But the rate of interest was forced down in proportion as its sanctity was attained. In other words, lending became universal, hence cheap. Hence the lending of coins became limited as against the demand, and that Italian invention, the bill of exchange, took its place.

The Banking Document

The representative of money is born. Instead of coin, bankers give receipts. The goldsmiths, as they are called, transfer evidences of deposits instead of the deposits themselves. Book entries record the claims of one such goldsmith against the other, often in another country. Private international law makes its appearance. Elaborate

[5] *The Merchant of Venice.*

treaties are entered into to enforce commercial demands outside of the jurisdiction of the lender or shipper. Again capitalism is liberated, this time from the limitations of bullion and coin, and local law.

Marlowe lets Barabas speak, his assets are modern (1593):

> . . . Cellars of wine and sollars full of wheat,
> Warehouses stuft with spices and with drugs,
> Whole chests of gold, in bullion and in coin,
> . . . At Alexandria, merchandise unsold,
> But yesterday, two ships went from this town,
> Their voyage will be worth ten thousand crowns.
> In Florence, Venice, Antwerp, London, Seville,
> Frankfort, Lübeck, Moscow, and where not,
> Have I debts owing, and in most of these
> Great sums of money lying in the banco. . . .[6]

A fully realized merchant economy is pictured.

Credit

Credit became common in the seventeenth century. That is, a merchant, who had shipped goods to the East, instead of waiting a year or two for his payments, sold his claim or, in banking parlance, received an advance on the moneys to be received, for which he gave his bill of lading as security. For this accommodation he paid interest, until the time when his receipts from the consignee were available. By this means a shipper with a capital of a million guilders could sell ten million guilders' worth of goods and receive advances on them. If his profits on the ten million guilders of goods sold was 10 per cent, or a million guilders, and his bank accommodation of nine million guilders (the difference between his goods sold and what he owned) cost him 6 per cent, or 540,000 guilders, then his net profit was 460,000 guilders, or 46 per cent, whereas if he worked with his own capital, he could make only 100,000 guilders. As soon as bank credit became abundant, this obvious advantage was more and more sought by merchants and manufacturers. Its later catastrophes and abuses come under another chapter ("Commercial Crises").

[6] *The Jew of Malta.*

Immaterial Money

The bankers required that these borrowers deposit with them as well, so that soon most of the liquid funds in the country were banked. Men's fortunes became immaterial. In Scotland, banking and paper money were idolized by theorists, as active aids to commerce, and bullion attacked as sterile. The immaterialism resulted in a speculative frame of mind. Men were further and further removed from simple commodity production and soon it seemed that it was credit that generated production! Currency theorists make their appearance, in numbers, about 1690.

New Classes

By 1650 the fabricator (workshop manufacturer), the trader, and in Holland even the investor, became important classes with which the hereditary nobility and even the more mobile clergy had to reckon. Upon the conflict of the new class of burghers and the older privileged estates, the temporary solution of absolute monarchy, above all classes, was superimposed. But the needs of the burghers broke through the shell of absolute monarchy. The triumphs of absolute monarchy (itself the gravedigger of the older feudal state dominated by nobles) proved evanescent.

In England the aroused burghers, enlisting the aid of yeomanry and workmen, cut off the head of one king and in 1688 deposed another.

Ideas of the Bourgeoisie

They produced subtle and voluble theorists to blazon their new society. Dudley North, Thomas Mun, novelists like Defoe and, in France, the first great mercantile statesman, Colbert, became typical thinkers and politicians. Locke the philosopher and Newton the physicist bother about currency. De Witt in Holland achieved a dictatorship based on taxation and the national debt.

Triumph of Merchant Capitalism

Capital comes out of the hoards kept in heavy chests and takes on the more metaphysical form of paper, stocks, bonds, bank credits, bills, discounts. Usury, the charging of hundreds per cent per

annum for loans, is wiped out by the bankers who charge ten per cent or less as loanable capital takes other shapes than coin. Shylock and Sir Giles Overreach are embalmed in literary museums whereas Robinson Crusoe ends his long career with thousands of pounds of cleared profits in trade.

The courtier and the priest were considered inferior to the "honest tradesman." Slavedealers in Liverpool learned to use a liberal lingo at home. This fluid society, governed by one need, *profit;* seeking it in all lands, in all currencies, making any kind of goods that would bring in money, crashing through customs and artisan habits, was a new phenomenon, the greatest social revolution man had ever known. All previous societies, since the primitive tribes, were based on *status*. This was based on *contract*. Purchase and sale replaced the kissing of hands.

The viewpoint of this new class came to be regarded as self-evident. Rare indeed were those who remembered a previous order of thought. Here and there a de Maistre or a nostalgic Walter Scott evoked the feudal past, but as a sigh, not as reality. These vestigial groups, termed reactionaries, were flayed by the witty spokesmen of the merchants, such as Voltaire. By 1850, except for parts of Eastern Europe, the domination of capitalists was contested by no one except squires, poets, and a handful of rebels.

Companies

Toward the end of the sixteenth century it became evident that the capital of single men, or even a few associates, would not be adequate to undertake operations abroad, involving millions of pounds. Although companies were already known, such as the trading groups of Genoa and Venice, the Hansa Associations of the free commercial cities of the North of Europe, the warehouse groupings of Greeks, nevertheless these groups were made up of persons who acted together and knew each other well.

It was found needful to extend these companies. In order to extend them, it was necessary to get over the limitations of partnership. Partnership implies that each associate is liable for the full debts of his undertaking.[7] To obviate this there arose gradually the

[7] Except limited partners.

system of limited-liability companies, that is, *artificial persons,* the interest in which was evidenced by shares in the business. These artificial persons are, in the United States today (not in England), called corporations, or, better still, in France, Anonymous Societies. They have, as a witty jurist observed, "neither a body to be kicked nor a soul to be damned."

Share Capital

Each subscriber to a share was limited only to the extent of an admitted and publicly known liability. Either that equaled the amount of money for which his share was a receipt or it might be a multiple thereof, clearly stated on the certificate and advertised to the world of creditors. Since governments often backed pirates, adventurers, and armed merchants and yet wished to disavow them, this means of obtaining giant capital became common. The East India Company and the Bank of England became the archetypes of semi-governmental companies. They came to own an empire like India, to control the public credit at home.

The Stock Exchange

This further anonymization and masking of enterprise required that the shares be easily bought and sold. Hence within the framework of the older merchant exchanges (or Bourses), there arose a section for dealing in shares and in government bonds, and a group of intermediaries called brokers came into being. The Royal Exchange of London, for example, and the Bourse of Antwerp, were soon separated from this new activity, which brought about the Stock Exchange; this was especially true in Amsterdam. Shares and bonds were freely exchanged between countries. Speculation became general as gamblers sought to anticipate the profit possibilities of the companies of which these shares were parts. Those who believed they would rise in price bought for an advance; those who believed they would fall arranged an ingenious mechanism called short selling whereby they could sell what they did not have and deliver to their buyer by borrowing shares from a third party and returning them to him by buying at lower prices, at their convenience.

From this point on, no one knows to whom companies belong. Thousands of men exchange shares in companies whose business they know of only by report, and sometimes they do not know that.[8]

The banks extend credit not merely for commerce, but they advance money on these shares, since they have a ready market. Thus there arises margin-trading, that is, the purchase of shares by buyers who avail themselves of bank credit for the difference between what they put up and the price of the shares. This operates like bank credit in commerce; it enables a small capital to do the work of a large capital. This leads to gambling, and this in turn to appalling crises, leading to personal ruin. The tavern card-gambler—the shame of preachers and target of sermons—has become enthroned in the high places. Pliant economists point out that he anticipates values and without him the economic mechanism would have no directive. In this way there is achieved what Marx calls fetichism, that is, a masking of real relations by assuming that their disguises are primary. More and more production and its problems are disguised by money forms.

Arbitrage

Before long, there arises the *arbitrageur,* that is, the man who takes advantage of minute differences in quotations of currencies and shares, even fractional differences, between various stock exchanges, in different cities. In the eighteenth century a Frenchman devised *options,* that is, the purchase of the mere right to demand a certain share at a certain price later on. These were used by bankers to *hedge,* that is to protect themselves against falls in value of their shares or the shares they had taken as collateral. These financial dodges enabled machine industry, when it arose, to be quickly financed. It also resulted in manias like the South Sea Bubble of 1720, exactly like the biting manias of the Middle Ages. Money replaced religious lunacy.

National Debts

Not only was bank credit facilitated, but the governments themselves mortgaged their future taxing power in order to obtain funds

[8] Wall Street is full of stories of men who buy shares because they think their "tape" initials represent some play or even actress.

for present wars or royal extravagances. That large group of bourgeois who had retired from trade or, more often, come back from the colonies loaded with plunder (as the famed Nabobs of India), sought to invest their credits. They were pleased to lend them to the government, obviously a better risk than most goldsmiths or private bankers. When wars became more costly, as in the sudden insane increase in expenditure under William Pitt, the governments contracted such large debts that their bonds became the be-all and end-all of many well-to-do persons. An increasing number of hereditary fortunes thus lost all connection with manufacture, commerce, bullion, coin, or even banking, and subsisted on taxes. In the meantime the interminable wars of Europe led to a new source of plunder, not abroad, but at home, in the shape of army contracts and "farming" of the revenue. Their descendants, whose fortunes, unlike those of the merchants, had not arisen from trade, formed the base of a new "gentle" class.

The Rentier

The French name for this class is now generally accepted. They are termed *rentiers*. Since many of their children took on genteel careers, among them that of university professors, this class, especially toward the end of the nineteenth century, increasingly directed the attention of economic speculation away from production toward consumption.

Since as a class they do not know how to make money, but only to enjoy it, they are timorous, conservative, and far more pliable to the wiles of statesmen than the more robust active leaders of business. Living off taxation, the state became their one business. Budget crises were their terrors, and when, as about 1789 in France, they could not be paid, revolution became the practical alternative.[9]

[9] See Appendix II for critical addenda.

4

Manufacture and Machinery

The System of Manufacture

Manufacture in its early stages simply incorporates a greater number of workers in one shop than the guild-master used. It is merely, then, a change in the quantity of labor employed on a given task. But it has an effect, since twenty workmen in one shop working for one master can be counted on to turn out an average production different from that of two workmen, each brace working for ten masters. In the latter case one master will do much better than others owing to the uneven quality of labor. But in the grouping of twenty men together, the differences of each man begin to be canceled out, and the master can rely on an average quantity and quality of production upon which he can base his calculations. The role of the individual is diminished, that of social productivity becomes increasingly significant. But there is a further advantage.

It costs less to build one shop for twenty workmen than ten shops for two each. Less capital is invested per man employed.

This primitive improvement is not as yet important. It teaches the masters a simple lesson. Twenty men working together actually produce more than twenty times as much as one man working singly. By pitching together, by dividing tasks, by joining forces for lifting and heavy work, the efficacy of total labor becomes more than the sum of its parts.

Even where all the men employed do the same thing and pass the work from hand to hand, their speed is greater than if each has to go through a whole series of routines each time afresh. Wherever time is a factor, as in the harvesting of crops, shearing of sheep, etc., co-operation is decisive. Co-operation, in the first stages of capitalism, may in any case show one or all of the following advantages:

(1) It increases the mechanical force of labor as a total.

(2) It enables it to operate over a larger space with the same total energy as was formerly used by separate workers.

(3) It reduces the space required to produce a given article by bringing the tools and instruments of labor together.

(4) Where time is essential, it mobilizes labor quickly.

(5) It excites competitive attitudes in workers who can see each other's contribution, where formerly they were alone and did not properly compare results.

(6) It enables a greater continuity of production, eliminating the need of interrupting an activity so as to do associated tasks, or attend to other aspects of production.

(7) Men learn the many-sidedness of production when they see complex jobs done socially, all around.

(8) A group of men can perform certain jobs simultaneously, whereas with the individual worker, each operation had to be concluded before he could go on to the next step.

(9) The use of means of production in common means that less of them are available for more labor: for example, twenty carpenters need twenty lathes, whereas ten might do for twenty together, in view of the fact that lathes can be used for only a part of the time.

(10) It enables the total production of a group of men to be more accurately estimated, that is, it creates *social* labor.

For this reason Marx says "when the laborer co-operates systematically with others, he strips off the fetters of his individuality and develops the capabilities of his species."

The Need for Industrial Management

Since laborers are combined, in the early stages of production, in one place in order to realize the benefits of their co-operation, it follows that the employer who takes on so many workers must have far greater capital than the cobbler with his solitary apprentice. He must have money to pay wages. He must have a large amount of raw material. He must have costly workshops. Lastly, it requires that a division of labor takes place. Whereas the cobbler both labors

with and commands his one apprentice, the capitalist, commanding say fifty men, must direct them all to one common task, distribute their parts and, himself, do none of the routine work alongside them, for he has no time for that function, and further it would be a waste of his energies. Hence the capitalist becomes the *entrepreneur,* that is, he is a "captain of industry," as well as a capitalist. He must exploit, that is, *use,* labor, for his good. Unless he does so to the full, he will not obtain profits. Hence the new form of co-operation begins with a strange contradiction.

Production becomes social, appropriation of profits individual. Men work together, but a small class, owners of capital and directors of enterprise, exploit,[1] that is, stand apart from the co-operators in order to use their activities with the sole object of producing a profit for themselves (the employers).

The workers co-operate but not in tasks willed by themselves. They are not interested in what they produce. The requirements of the capitalists, and the workers' own pressing need to sell their laboring power, effects the combination. The direction of industry becomes authoritarian. It develops further as the employer ceases directing the actual conduct of work every day. He hires foremen, who supervise the work, and engineers, or managers, who plan the schedule of activities and the rhythm of purchases as well as direct the efforts of selling the product.

Two Objects of Management

Hence there are two forms of control and direction: One, to enforce the co-operative benefits of labor, and the second, to assure that this co-operation yields a profit. From this comes the celebrated challenge of Marx to the theory that the capitalist is entitled to his reward because he directs production:

[1] *Exploitation* is used wrongfully as the equal of robbery. What Marx means by this French expression is the use of labor to obtain profit from it. Robbery without such use, or cheating, is not exploitation. Nor is *employment* exploitation, unless used for a profit. The laborer, says Marx, is exploited, even when he is paid in full for his work. It is the enjoyment of a surplus over and above that compensation, by the capitalist, that constitutes exploitation. A drayman exploits a horse even if he gives him all the hay he can eat.

"It is not because he is a leader of industry that a man is a capitalist, on the contrary he is a leader of industry because he is a capitalist."

He points out that the leadership of industry was as natural to a capitalist as the leadership of armies to a feudal lord. By this observation Marx does not mean to imply that, say, a particular workman, gifted with inventive powers, cannot become a capitalist. But unless he is a capitalist he will never be a leader of industry but merely an ingenious person selling his talents to a capitalist.

The class of capitalists are the class of leaders of industry, for the reason that they have the capital, and for no other. In other words, they are praised and claim a reward for the necessary shepherding of their fortunes since, under the system of society they have inaugurated, no other class can possibly do what they do.

Marx states further that since the labors of a hundred men are more than a hundred times as great as the labor of each individual, the capitalist pays for the services of a hundred workers but not for the surplus of production due to their co-operation. As labor did not develop this co-operation without having previously sold its services to capital, it appears that capital, by nature, has a special productive quality, so that an attribute of labor appears as one of the capital that profits from that attribute.

Two Forms of Co-operation

Simple co-operation soon develops into large manufacture. Until about 1770 this took two forms: by the grouping in a single workshop of workers, each of a different craft, but each of whom makes parts of a finished article. Quite soon, after devoting his talents to this activity, each of the craftsmen becomes less complete, even in his own work. For example, a saddler confines himself to making carriage-straps and not to the whole range of saddlery. The second form of manufacture is simpler. It consists of the fabrication of single articles (say a nail), in which there are many operations but no special skill, no separate crafts. Here, although the labor is simple, each person is assigned a separate operation, and only that. In this way each operation is done more speedily.

The manufacturing epoch, then, unites men of different crafts

and reduces the range of their special activities, or it takes men of one craft and reduces the number of their operations. In any case, there is created a mechanism of which the men are merely parts. Hence the descriptive name of "hands." But as yet there is one limitation to great progress. Each man, however circumscribed, still is a handcraft-worker. He uses no mechanical power.

The Specialized Toolmaker

But, as labor is most productive when its tools are best adapted to special tasks, so, as the manufacturing period advanced, tools became more varied, more adapted to one special need. Instead of a hammer being used for all the purposes a hammer is needed for, different kinds of hammers were developed, since they would be used constantly and advantageously by one worker for one special task. This resulted in a skilled group of toolmakers, a branch that had not flourished before. As machinery is a combination of simpler elements, including tools, a new generation arose whose training prepared them to conceive of mechanical appliances.

Division of Labor

Marx cites the watch trade as a perfect example. (Watchmakers were outstanding in sleight-of-hand and magical tricks!) [2] In the Alpine and Jura valleys by the eighteenth century, before machinery was employed, the following division of labor took place: Mainspring-makers, dialmakers, spiral-spring workers, jewel-hole makers, ruby-lever makers, hand-makers (as distinguished from the dial workers), casemakers, screwmakers, gilders, brass and steel wheel-workers, down to teeth cutters in wheels only, and twoscore others, all subtle, delicate labor requiring perfect adjustment of hundreds of units to turn out a good timekeeper, with an easily opened cover and a perfectly functioning stem.

On the other hand, the manufacture of wires, before machinery, was effected by threescore workers, dividing the detail of a comparatively simple product.

[2] And in homemade, quaint science. A considerable number of what Augustus de Morgan called "paradoxers" were watchmakers.

The Necessity for Large Capital

A further consequence of the division of labor was the ascertaining of the proportion of laborers required for each process. If one process took two hours and another one, then it was necessary to employ twice as many laborers for the first process as for the second. When, as in the wire trade, threescore were required, the division of labor came to be so calculated that, say, a works would have to employ two hundred men to obtain the maximum co-operation of workers doing their tasks at unequal speeds. Any factory that had fewer was relatively inefficient and costly and lost out in the competitive race. This fortified the tendency to larger and larger capitals in manufactures.

Capitals become larger, labor perfectly adapted to acting like a machine. Toolmaking becomes mature, mechanical talent developed. There are hundreds of thousands accustomed to working in mass instead of a few scattered guildmasters and servants.

Encouragement to Science

In the meantime, the bourgeoisie, in thrall to the need of more profit, sought any devices that would encourage the saving of labor, the greater efficiency of manufacture. They encouraged ingenuity. Abundant capital, made out of colonial profit, sought investment in these factories. Proper use of labor, technical development, abundance of capital, fluidity of social organization, need for constant change in modes of production in order to compete, caused the capitalist to become friendly to *innovation.*

Whereas previously the whole of society had been identified with an everlasting king, church, landlord, now the whole interest of the newly rising burghers required advancement in the technique of production.

Science, previously disdained, was now courted. Galileo's telescope, Pascal's hydraulic jack, Descartes' diver, Guericke's Magdeburg spheres, the microscope of Malphigi and Swammerdam, Newton's currency mill, were eagerly welcomed. Mathematics and physics became elaborate disciplines. Chemistry developed later, but by 1780 Lavoisier had laid its imperishable foundations. Crude experiments with steam engines became common.

Charles II, a Stuart and reactionary, nevertheless created a Royal Society for Science. The manufacturing system thirsted for improvements.

The Worker Precedes Scientists

Yet it was from handicrafts, from artisans and workmen and foremen, versed in the manufacturing arts, rather than from science, that the first great triumphs of machinery came about. The worker did more to create capitalism than capitalists or savants. Science came into its own, rather, in the nineteenth century with the work of Faraday and men of his generation. That is not to say that the difference of scientific knowledge between 1550 and 1750 during the epoch of manufacturing had not organized the perceptions of manual workers. But the first direct applications came rather from them. The discoverer of latent heat did not invent the steam engine. The theoretician of mechanics, Lagrange, invented nothing. But men trained in the workshops, steeped in the new spirit, gave an impetus to machinery.

The Rise and Fall of Localization

The localization of manufactures at first assisted the development of machinery. The division of town and country became greater as large agglomerations of workers were centered in what were formerly small towns. Then again, subdivision of labor encouraged efficiency and, in turn, workshops were located where that large number of workers might be used to best advantage. Silk mills were established in the cocoon lands of the south of France, linen factories near the flax fields of Ulster. Transport was expensive and difficult. But for the finished articles, which were more compact, the new colonies and the recently acquired Indian Empire furnished world markets. The returning ships brought rare and strange raw materials and so manufacture was ever more diversified. Its dependence on location diminished.

The End of the Guilds

The restrictions of guilds were completely swept away. A merchant with capital could employ labor, where formerly only a master could do so. With labor excluded totally from the land, especially

in England, by the enclosures,[3] and with the laborer completely divorced from his means of production, the great era of "liberalism" set in. The craftsmen still insisted on apprenticeship rules. These were the last barrier. The machine finished that in one generation.

The Machine

The machine era is not distinguished from the manufacturing by any hard and fast line. The water-wheel, mother of all machines, was known in antiquity. Levers, catapults, pulleys, lifts, were part of an immemorial tradition. Unutilized machines piqued curiosity long before the eighteenth century. But not until the spinning machine was made practical about 1735 does machinery enter production as an important factor. Only two centuries separate us from the handicraft era. By 1770, the invention of the spinning jenny and, above all, by 1784 with the innovation of the steam engine by James Watt, the machine age in Europe commences. In the United States the cotton gin, invented by Eli Whitney in 1793, not only showed the advance of Yankee ingenuity to parallel the old country, but it also created a new abundance of raw materials for industry. For the first time in human annals a machine built a new empire, the Cotton South, and changed the face of the earth. Without the invention of Whitney's cotton gin, even the most ingenious contrivances for looms in the old country would have lacked raw material for giant expansion.

Fall in Value of Goods

The machine is an entirely new phenomenon in history. It changed the place of labor in industry, not merely quantitatively but qualitatively. It changed the whole social meaning of production. There is no use, for all practical purposes, in equating machine industry even with its immediate predecessor, manufacturing. The change in labor arose from the fact that the amount of labor time embodied in the production of any commodity fell by an astounding amount. In Marx's expression, as we shall see later, in the chapter on "Value," the values of all goods fell to unrecognizable levels.

[3] For a defense of the enclosures see the comment of J. H. Clapham in Vol. I of *Victorian England* (N. Y., Oxford University Press, 1938).

"Cheap and nasty" was the epithet hurled at machine industry by idealists like the poet Southey. They were right, at least as far as cheapness was concerned. A mortal blow was dealt to the old workshop system. Labor-power, embodied in the machine-produced goods, cost but a tithe of that of the old hand-loom, or even the pedal and shuttle devices worked by direct labor-power. What was the essential social difference?

What is a Machine?

A machine consists of three parts: the motor mechanism, such as a steam engine that generates motive power, that is, puts the machine in motion; a transmitting mechanism whereby that motive power is made available, for example, flywheels, belting, gears, which not only transmit power but regulate its availability as to time or as to motion (rotary or direct), or, better still, distribute the availability of power to specialized machines; and the working tool, usually a heightened carryover from the manufacturing tool, which is enabled to operate speedily by reason of the co-operation of the motive and transmitting sections.

At first sight, it does not seem that this triple device constitutes a revolution in production. After all, motive power, outside of man, was available from windmills, waterfalls, oxen. The basic tool, lever, screw, hammer, etc., existed among the medieval craftsmen. Since mechanical power, outside of man, was old, since some transmission, as with the pulley, was known, and since no matter how clever an inventor is the tool he utilizes must embody the principles, however complicated, of inclined planes, wedges, etc., why is not the old definition correct that a tool is a simple machine, or, rather a machine no more than a complex tool?

The Special Marxist Approach

Here the special approach of Marxism enters, because it is *historically* different. The quantity of motive power embodied in the steam engine as against the windmill, as well as its continuity, the varied and speedy availability of the transmitting part, and the complexity of the working tool, as well as its fantastic speed, combine, as a totality, to create new class relations, and thus, by reason of the

quantity of production they make available, create new social classes, new types of capital, change the area of markets; in short, create a new world in its image. As we shall see later, the change of an increased quantity into a different quality, merely by reason of that increased quantity, is basic to the logic of Marxian economics.

The workman handled only a single tool. No matter how adept he might be, even if he were a monster of perfect ambidexterity, he could use no more than two. The machine, by transmitting available power, could utilize dozens, hundreds, eventually thousands, of tools. At first the horse was used even in factories, to move transmitting mechanisms. The survival of the term "horsepower" is a testimony. But Watt's steam engine ended his career. The horse was capricious, costly, got tired. Wind was irregular, and often died down. Before the turbine, waterpower was too fluctuating. Hence the full availability of the machine does not become apparent until the end of the eighteenth century. By 1800 the factory system, based on the steam engine, has begun to be important.

Machinery Diffuses Industry

The steam engine of Watt, the double-acting machine, used coal (of which England had an abundance) and water; its power was subject to the absolute control of man. It could be moved, it could be used in cities instead of, like the water-wheel, being mostly available in the country. And, what is more, its basic difference from all previous machines was foreseen by its inventor, as the universal agent for machine industry.

He saw that he could drive many machines, perhaps dozens, with one engine. Production was free from local limitations. It enabled a combination of machines, doing different parts of the process, to be driven simultaneously. Whereas in the older manufacture, the division of labor required that each detail in production be done separately, in the machine industry continuity of process became the order of the day.

Contingent Effects of the Machine

Once the machine process became mature, it had children. The changes in one industry, its speeded-up demands, required better

transport, more solid materials, more abundant materials. Once spinning was mechanized, it was seen that weaving had to be adapted to it. But once weaving too became mechanical, the printing of cloth, its bleaching, its dyeing, could no longer be done at an infinitely slower rhythm by hand.

For were that discrepancy to continue, once the spinner and weaver had saved time in production, they would have to slow down until the finishing process was complete. At first this difference was compensated by employing more labor in the costly and backward parts of the process. But soon not only mechanical physics but even chemistry were called into the service of industry. With chemical adaptation, it is not merely the transmitting mechanism, but the use of the sleeping processes of nature itself that man, the magician, made to waken so as to illuminate the world by gas or to replace the colors of plant juices.

The Modernization of Transport

Nor could industry be bottle-necked by means of transport far behind that of industry. The sailing vessel was made swifter, the clipper ship foreshadowed. The canal craze of the 1820's, the railroad before the steam engine, the use of the steam mechanism on boats as a subsidiary force and after 1820 more and more as the primary force and, at last, the locomotive, used locally in a few industrialized areas of England and America, after 1840 seriously displaced the stagecoach and the wagon.

Criticism Begins

By 1800 Fourier, the French economic genius, saw the whole problem of the infinite social differences that the machine made compulsory; he saw that it was forced to create a new world to keep up with its insatiable appetite. For him, only a utopian socialism could save mankind from the machine's disastrous threat. When, in 1825, for the first time capitalism gave rise to a worldwide industrial crisis (not to be confused with the credit panics such as the South Sea Bubble and Mississippi panics of 1720-30), it was seen that the machine had brought new forces into play but had not created a social situation to correspond therewith. When after 1840

the railway and the telegraph came into common use, Marx had before him the fully developed capitalist system, and by 1847 had adumbrated his economic system, which he practically completed by 1859.

The machine industry required, in a certain way too, as Marx pointed out, an even more delicate artisanship than that of the most subtle craftsmen. The precision tool required a fineness of measurement and reliability hitherto unknown. Without it even the steam engine remained erratic and obstructed. This led to the development of a class of mechanicians and engineers, a new group of highly skilled workers, and the manipulation and design of these new, delicate instruments required a greater diffusion of education. The complex bookkeeping and correspondence required by business, the need for a multitude of credit and banking operations to cope with increased trade due to amazingly increased production, required the universal diffusion of literacy and mathematical knowledge so as to provide engineers, foremen, and clerks. As the production of machine parts and precision tools became more accurate, science itself benefited through a new scope in its laboratories. Then staffs of these laboratories were often recruited from sons of the more highly skilled engineers and mechanicians. Thus was developed a salaried middle class, also divorced from ownership of the means of production, but better compensated than the workers by reason of the length and costliness of their special training.

World Diffusion of Capitalism

The vast profits of manufactures were as nothing compared to the new profits of machine industry. The scramble for colonies became a necessity for the further investment of surplus money. Britain conquered a fourth of the world, and loaned out immense sums to build up its erstwhile colony, the United States, and also the former Spanish empire, especially the Argentine. France built up the second colonial empire.

The revenue from abroad came to be larger than the profits of trade itself. The need for cheap raw materials led to an abandonment of home farming in Britain and the introduction of the policy of free trade, by which food came from America and the cost of liv-

ing was kept low at home. In this way money wages were kept low as well, and so Britain was enabled for fifty years to outdistance all competitors.

For all that competition gained and soon became serious. By defeating the French nobility, the English had unwittingly brought about a transfer of power to the bourgeoisie there. They proceeded to build up a machine industry, paralleling Britain's. So did Germany, after 1870, but more effectively.

But all industrial achievements in Europe paled beside the immense development of the United States. Free of feudal trappings, pure capitalism reigned from the foundation of the Republic. Hamilton was more thorough in his understanding of the system than any European.[4] In a century population gained fifteenfold. The annals of mankind contain nothing resembling it. Land was nearly free, some of it wholly free. Capital, advanced by Europe, was lavishly given.

Immigration was the greatest since the primitive folk-wandering of the Teutons. By 1870 the fortune of a Vanderbilt, hastily acquired, surpassed that of the centuries'-old accumulation of swollen rent-rolls of the Duke of Westminster. By 1900 the amount of mechanical power per man employed in America was twice that in Britain.

A pure industrial plutocracy, given an unlimited chance to show what capitalism could do, had gone beyond the accumulations of centuries of mercantile, colonial, *rentier,* and factory profits combined in the old country.[5]

To sum up, the Marxist theory deals with the capitalist system. This is historically recent. It was preceded by the manufacturing and mercantile economies. These laid the specific technical and intellectual foundations without which the machine economy would be inconceivable. The manufacturing economy, in its turn, arose through the breakdown of the feudal (including ecclesiastical) system of land tenure, and also the breakdown of the rigidly organized guilds. The extension of the market, the consequent rise of towns,

[4] His theories on manufacture are Marx in reverse.

[5] By 1895 European investments in America were partly replaced by the export of titled husbands, at stud, to the daughters of American millionaires.

and the extension of the known world beyond Europe played a decisive part in antiquating and ultimately wrecking these older forms.

Once they were wrecked, their dependents were at the free disposal of capital. Capital, at this time, was immensely fortified by outright plunder. Colonial robbery, piracy, land enclosure, were basic. Immense sums of money accumulated. Unlike previous empires, such as the Roman, this plunder was directed toward a higher level of productivity in the manufacturing epoch. Through the confluence of these factors, wealth increased out of all recognition to that of the feudal period.

The capitalist system is nurtured in the form of money and credit. It develops the machine, which enables it to employ labor to far greater advantage than before by reducing the value of goods, that is, by incorporating less socially necessary labor-time to produce each commodity. With the machine economy, the place of labor in society is changed. It is a part of the total mechanical production, instead of, as previously, a set of artificers whose labors were strung together in a workshop. A new man is born, the proletariat.

NOTE: Consult Appendix III for bibliography.

5

The Proletariat in the Machine Age

Marx's economic theories center about labor in the machine age. He gives this class the Roman name of proletariat. Attached to that section of the plebeians who were fertile, in distinction to the almost sterile patrician families of Rome, it was used rather as a comic term than in the new, serious use given to it by Marx. A better term, in English usage, would be the working class, in American, the workers. But the influence of French socialists, who naturally carry over Latin usage, has become traditional in Socialist thought, and so we shall term the modern industrial worker the proletariat.

Marx's labor theories specifically concern industrial labor in the age of capitalism (that is, from 1784, if an arbitrary date must be chosen, to the present). It is of this labor he is thinking when he says that it sells its laboring power to capitalists, and that it creates all value socially by the time it devotes, as a mass, to production.

That is not to say that Marx is not vividly concerned with labor at all stages of development, including Hindu peasants and Chinese coolies. But his specific economic theory of capitalism isolates labor as producing socially and as integrated with immense machine developments. Other labor, such as that of clerks in retail stores, he assimilates to this great mass of productive labor.

The Slum Dwellers

By the end of the eighteenth century the mass of the people in England were driven off the farms by the continued enclosure movement. The independent farmer, too, was ruined. In Ireland a nation of paupers came into being as the primitive clans were driven off their lands by alien conquerors. In Scotland the heads of the clans, mere feudal repositories of the rights of their clansmen, drove off their own flesh and blood and so peopled the dreadful slums of Glasgow and Edinburgh. In France the magistracy, though not so effective, played much the same part. The people, huddled in the

towns, could not be absorbed by the manufacturing system. Not until capitalism arose was this artificially created surplus population made available to industry, and the hideous proletariat of Hogarth's cartoons regimented into orderly factory bees.

By 1800 a large section of the English people lived in towns. In every country, for the first time since classic antiquity, the towns grew far more rapidly than the surrounding countryside and, in several countries, the absolute population of the country declined. The factories developed at a pace that made every previous social change appear geological.

Ruthless Exploitation

The conditions of labor were atrocious. The working day was steadily lengthened. A machine never sleeps. The helpless population was driven to work as many hours as possible so that the investment in factories should not be wasted. Idle time was loss. The physical limits of endurance were the only factors that stopped the laborer from being exploited twenty-four hours a day. It was grudgingly acknowledged that he had to sleep.

Twelve to fourteen hours was the median. No one worked less than seventy-two hours a week, and the average was nearer eighty-four hours. In Belgium the sixteen-hour day was frequent. Since working the machines required, in most instances, little training, and certainly nothing like years of apprenticeship, women and children were sucked into their vortex. As the actual amount of physical labor in tending the looms was often not excessive, *at any given time,* children of four, even, were impressed. Thousands worked from dawn to sunset.

The "knocker-up" appeared at every house before the invention of the alarm clock, and the barefooted family, mother wearing petticoat and shawl, and the ragged children, all answered the factory summons. Between the lengthening of the working day, the intensity of labor, the enslavement of the family (instead merely of the breadwinner), the vile housing, there resulted a human inferno which, even at this day, it is impossible to read of in cold blood. The stricken population had only three surceases. The first was alcohol, the second religion, the third emigration.

The Malthusian Theory

Since the towns were crowded with a population that could never find work, at the rate it increased, no matter how amazing the development of capitalism, it occurred to economists that its misery was due to the surplus of population itself. These ideas, reiterated in the eighteenth century, were summarized by T. R. Malthus in his *Principles of Population* (1798), together with an addition in 1803 of precepts for the poor. The burden of this celebrated theory was that the population of a country tends to increase in a geometrical ratio, that is, in the series, 1, 2, 4, 8, 16, 32, 64, 128, 256, 512, etc., whereas subsistence, from the land, can at best only increase arithmetically, 1, 2, 3, 4, 5, etc. Since by this reasoning it was patent that in ten generations there would be fifty men for one loaf of bread, and as things never do get this bad, Malthus developed the theory of the *preventive check*. War, famine, and disease checked the geometrical increase of population so as to bring it brutally into line with the limited amount of food.

Later Malthus, as befits a parson, counseled the workers to be continent. Not only were they to work fourteen hours a day for six days but they were to be denied the simplest physiological pleasures of animals. They could never escape from starvation in any event, since even were they to overturn the social order and despoil the rich, their tendency to reproduce would plunge them into a still deeper poverty. The niggardliness of nature and not the injustice of man was at the heart of their woes.

It is easy to see that dread of the French Revolution, plus the simply terrifying increase of the proletariat, conspired to make this the accepted theory of the early factory system.

The Wages Fund Theory

With it was joined the theory that the capitalists advance a wages fund. This fund is limited in amount. Since the wages fund is fixed, or nearly fixed, the laborer can improve his lot only if he has fewer children. There will then be fewer to divide the wages fund. This theory too found wide acceptance, and by the time of John Stuart Mill (1847) was almost undisputed.

Increase of Population

Despite these limitation theories, the capitalist system did not have a fixed limit of population, held by preventive or prudential checks, nor a fixed wages fund, but showed rather the most explosive powers of expansion yet recorded. In 1780 the population of Europe and of colonies peopled by European stock was not over 130 million. By 1910 the European stock had increased to 600 millions. Malthus's checks had kept it at no more than 130 millions for countless millenniums (the Roman Empire was nearly as peopled as that), but capitalism increased it nearly five times as much in four generations as in all the previous annals of mankind.

The colonial and emigration stock alone was over 150 millions. Beside this, Europe controlled directly 800 million people of a lower technological culture, such as Hindus, Negroes, American Indians, Malays.

Three-fourths of the human race were direct subjects of capitalist states, and one single native population only, the Japanese, escaped subjugation by mimicking the arts of industrial society. Its feudal culture was harnessed quickly to an alien technique. The more insolent Chinese civilization despised the West and suffered greatly for its literary, esthetic, and philosophical aloofness. By 1910, the world was parceled between the capitalist powers and the native races were being brought into the factory system, much to the despair of European labor.

Urban Society Monopolizes Culture

The face of the earth was transformed. Pastoral and rural society, hitherto the interest of mankind, no longer set its tone. Even music and poetry, in both of which the shepherd's reed echoed longest, came to bear the impress of mechanical noises and clipped, direct speech. The arts, once exclusive properties of a privileged, feudal caste, became popular. The newspaper made reading cheap. The arts of diffusion—printing, the phonograph, radio, moving pictures—laid emphasis on consumption. These secondary products of capitalism became themselves giant industries, opening up large avenues of investment and employment. Above all, the culture of the cities, crowded with proletarians, became universal. The coun-

try retreated to mockery; the slower tempo of its production was thought to be mirrored in its mind. The speed of the factory chain became the model of intelligence. It shaped man in its image.

Immense Increases in Cities

In 1800 the city population of Europeans was under 10 millions. The largest agglomeration was the mercantile and banking town of London. It had a million inhabitants. Its size and complexity frightened thinkers. "A man tired of London is tired of life," spoke the sententious Dr. Johnson. "And all that mighty heart is lying still," wrote the awed Wordsworth at night on Westminster Bridge. By 1910 the urban population exceeded 225 millions in lands of the European race.

The invention of the cheap automobile had rendered the countryside, too, less rural. For this reason Marxians hold that a state of society with 225 millions in cities is not to be compared fruitfully with an economy like that of, say, 1780 with an urban 10 millions. It must call for a wholly different economic treatment.

Class Changes

This changed physical environment brought about enormous changes in social classes. In 1780 the industrial proletariat, that is, persons working in large workshops or factories, could not have numbered more than 3 million, including miners. By 1910, the industrial proletariat, persons gainfully employed in the service of others and in other than petty establishments, must have numbered about 80 millions, perhaps over 100 millions. Alongside them grew up about 20 million professional men and skilled technicians, civil servants, etc., all either salaried or dependent on workingmen, basically, for a living.

The peasantry advanced also but in a different ratio. Whereas in 1780, the farming population numbered about 92 per cent of European peoples, by 1910 they numbered barely 50 per cent. If Russia is left out of account, in what is now the capitalist world they numbered less than 40 per cent. They increased from 120 million to 300 million, but mainly because of Russia and the United States.

The industrial population had risen from 10 million to about

300 millions (225 millions in towns and cities, 75 million in industrial employments in mines and smaller settlements). But the rural population, despite the unlimited promise of the Mississippi valley, the Argentine, Australia, and the Volga basin, increased but 2½ times, the industrial, 30 times.

In Western Europe, the story is far different. Here the urban population (and industrial) rose from 9 millions to over 160 millions, the rural from 90 to somewhat less than 140 millions. The proportion of classes has wholly altered. Also, in 1780 the mass of Prussian, Polish, Russian, and Balkan peasants were serfs and largely outside the mercantile economy. Now they were included in the world market for cheap goods.

Labor is now a commodity. The workers are as numerous as the sands of the sea; they are hired and fired in millions. Factories grow ever larger. The worshop with over 100,000 employees makes its appearance. An area of less than one square mile in New York sees 400,000 people toiling at desks, carefully making marks on papers. Man is no longer Frank or Jake, he is a "social problem."

Mass Consumption

Working in masses, enjoying himself in masses, living socially, this new man is subject to mass production. Instead of each carriage-maker having his own style of landau and brougham, a million Chevrolets are enjoyed by a million families per annum. When Eddie Cantor puns, two hundred million ribs ache. When John Barrymore prints a kiss, sixty million girls sigh. Such a breed has few reactions in common with the serf of the 1400's who rejoiced three times a year at a juggler's tricks in the market place of a village. Quality of taste is not here in question: it is the class mind that has changed. The electric light has increased the day, men reduce their sleep. Sleep is "wasting time."

The Psychology of the Proletariat

Hence there arises a class of hundreds of millions, periodically unemployed, having no real capital (some chance savings at best), unstable in location, either renters or quasi-renters of their dwellings (by time payments), living without space, and yet avid, ambitious,

watching with hungry eye the thousand gratifications they cannot buy.[1] Educated, since otherwise they would be inefficient as producers; civic, since the bourgeoisie conferred rights and liberties on them so as to win their alliance against the feudal enemy; living under a machine-gun fire of stimulants, light, noise, ideas, propaganda; here is man alive, the new man, the proletariat. A minimum of resources with a maximum of temptations.

This awareness, born with the genesis of the capitalist system, Marx considers as the root of class consciousness. Not that these mental properties are basic. They originate in the contradictions between labor and capital in the workshop, factory, store, office. Marx views every society as creating inevitable social by-products that heighten whatever contradictions there are at the source of production.

Class Consciousness

How did class consciousness arise?

At first in religion. Man, overworked, hungered for human association. The Established Church in England was at that period wholly at the service of squire and gentleman. The people instinctively grouped in chapels where the word of God was preached by poor men. (In *Adam Bede* this society is beautifully recreated.) In America, the church was the civic center, the only gathering place for the isolated farmers. Its tradition persisted in the mill towns. The communal singing of hymns and the long sermons gave the poor some dignity and heavenly, if not earthly, importance.

Their human qualities were preserved. They were never made one with the machine. The masters, on the whole, approved of their churchgoing, as it made them "steady." In Catholic countries, workers' associations almost immediately took the form of rebellious association, since there it was either authority or nothing. This was especially true in the country of the sharpest class conflicts, France.

Trades Unions

Although trades unions were prohibited as felonious in England, and even more brutally in France by the Chapellier law (1791), the

[1] On relative wants, see Marx's *Wage-Labor and Capital.*

pressure of the associated workers (especially the chapel worshippers) broke through and trades unions were legalized in 1825 in England and 1864 in France. In the United States, workingmen's associations, especially in the Jacksonian era, compelled modification of the masters' statutes, diminished poll taxes and property qualifications for voting, and even imposed general public education. By 1840 the rights of labor had basically been asserted and American democracy in the Northern states became more than a veneer over Hamiltonian business society.[2]

The Labor Struggle

Labor's first battles were for the limitation of the labor of women and children and, above all, for the right of collective bargaining, the object of which was first of all to reduce their hours of labor. A Homeric battle raged for decades. The economists, almost to a man, predicted the end of the world if labor were employed less than twelve hours a day. At last a break in the aristocratic classes, due to the demagogy of Disraeli (1844) and the philanthropy of Shaftesbury, enabled the workers to break through and the ten-hour law was enacted. This marked the first defeat of the capitalists, the first evidence that the state was no longer their exclusive theater but an arena of conflict, even though they still held the whips and the workers were gladiators.

But the reason for the victory of British labor was not so much its own as it was due to the industrial subjugation of India. British capital rewarded its home labor with part of the newly-won rewards wrung from the natives.

Divisions within the Proletariat

The class conflict was cushioned on the backs of Indian labor. Hence there arose a comparatively privileged skilled labor-class in England that has been notably conservative in tactics and obtuse to theory, since it is a junior partner in imperialism. In the United States, too, the waves of immigrant labor, together with the open-

[2] Although the feudal system in New York was not abolished until the rent-war of the 1840's caused it to be prohibited in the 1846 State Constitution.

ing of the West, enabled the older, skilled labor to create privileged craft unions with higher initiation fees, and to trade off benefits for selected groups without reference to labor as a whole. As the immigrant common labor was transmuted by training into skilled labor, it was admitted into the charmed circle, while the ever-gaining production took up millions of new workers from many lands. Unskilled labor came to be given to Negroes and Slavs and Italians almost exactly as the Roman Guards were recruited from Macedonia and Mauretania and Dacia. It may be more than a coincidence that the faces of American millionaires began to look exactly like those of Roman patricians.

By the eve of the Great War the urban population, and even part of the rural population, were for the most part proletarians. The farming population were no longer serfs. Capitalist farming had taken the place of feudal tenure. Production of wealth was too gigantic to bear comparison with that in any previous society. Total population and urban population were also many times that accumulated in the previous ages of mankind.

This amazing social order, the most vigorous and progressive ever known, was, however, unstable. It depended on crises to clear its difficulties. Unemployment was its primary resource. Class conflicts, *consciously expressed,* become normal. Social unity is wanting. There is an immense discrepancy between the technical accomplishments of the proletariat and its amusements, as compared with its insecurity and want of reserves. The system is tortured by the need for expansion and the shortage of time in which to expand. For the hundreds of millions of proletarians, Marx expounds his theories. He also hopes to gain the poorer middle class and the middle and poorer class of farmers. He has no message for the capitalist. Against him practically the whole critical economic science of his time is marshaled.

SECTION II

The Marxist Analysis Of the Prevailing Capitalist Economy

6

Commodities and Value

The wealth of capitalist society is made up of an immense number of goods or articles that are useful for the satisfaction of some want, whether real or imaginary. These goods or articles may be useful either for consumption—that is, to be worn, tasted, eaten, or even in the case of perfumes, to be smelled or, as with books, to be read or, with phonograph records, to be heard—or they may be useful for the production of other goods. That is, they may be fabrics that have to be made into clothing, or cotton that has to be woven into cloth. Or they may be machines for converting that cotton into cloth. Or more remote still, they may be tools for the manufacture of parts of the machine that is to be employed to make raw cotton into yarn, which then is to be made into cloth.

We classify goods according to their economic destination, or use, into two categories, producers' goods and consumers' goods. The value of these goods for the unique purposes of production or consumption is termed their utility or, in Marxist speech, their use-value. And this use-value has been the common feature of the goods of every society. No man can live without food and drink, few without shelter or clothing and, at a given point, men go beyond necessities and enjoy luxuries.

Wealth Is Not Related to Goods

But when wealth is looked at socially, a surprising fact comes to light. The wealth of capitalist society, or of any given individual in it, is not reckoned by his accumulation of these useful articles, so far as his own wants are concerned. A man may be esteemed very rich who has very few of these articles. We know that the wealth of most men consists either in their ownership or their possession of the means of control and acquisition of large quantities of goods that are not intended to supply their wants at all. These goods are accumulated either for other people's use or in order to produce

goods for other people's use. A man can become richer without adding to his store of wealth a single unit of goods that would gratify him. He may, in fact, become very poor by having too many goods that nobody else wants. Before the modern era, such a state of affairs was exceptional. In most communities it was inconceivable. Now it is the rule.

Goods Are Made for Exchange

When we say that these goods are intended for a use other than to gratify the wants of their owner, we mean that they are to be exchanged for other goods which, in practice, is represented by their being exchanged for money. They are made to be sold. Practically all goods are made with this object in mind. Hence we can say that the production of economic goods becomes effective with their sale, and such goods are called merchandise, or in economic language, commodities. The capitalist system is represented by an accumulation of commodities. Or as Marx succinctly puts it:

"The wealth of societies in which the capitalist mode of production prevails presents itself as an immense accumulation of commodities. . . . Our investigation must begin with the analysis of a commodity."

Use-Value Distinguished from Exchange Value

As useful objects, these commodities have the same character they would have if they were produced not as commodities, that is, as objects of sale, but produced for the consumption of their maker. That is, their use-value is independent of capitalism, and is therefore not the subject of political economy, but of the commercial or businessman's knowledge of goods. He appraises their qualities: if the silk be honestly made or weighted, if the measure be true or short. Whether as quality or quantity, their properties belong to physics and not to political economy. Their use-value is independent of the quantity of labor required to make the articles. For it is indifferent to the consumer, as eater or wearer, what labor went into the article he is consuming. It satisfies a want and he esteems it in that proportion. Since use-value bears no relation to the quantity of labor embodied in production, it is outside, for this

second reason, the consideration of economists. Thus "free goods," such as air, have great utility, but they are not exchangeable.

This is a vital distinction, for once it is apprehended, the so-called utility theories of value, including *marginal utility,* become irrelevant to political economy, even if (possibly) significant for psychology. The reason why it appears paradoxical is, as Marx says, that since goods are produced for sale (although they must have a use-value as well), it appears as though their value in that exchange is proportional to the quantity with which another commodity is exchangeable for them. But since their exchange value is always changing, it seems ludicrous to assert that there is an intrinsic value in the commodity itself. How can there be a value that does not find its expression in exchange value? If a customer offers one price for a commodity on Monday and another on Tuesday, what does Marx mean by saying that there is a value inside the commodity that does not appear in the relative quantity of goods it can command in exchange? Where does it appear if not in exchange? And if not in exchange, of what use is the term anyway?

The Generality of Exchange Value

This presupposes that a commodity has one exchange value. But it has many, in fact it has nearly an infinity of them. Let us illustrate.

A yard of silk is exchangeable for, say, a yard of wool in goods. It is exchangeable, however, for two yards of rayon cloth. It is exchangeable for twelve quarts of milk, sixteen one-pound loaves of white bread, and for one catcher's mitt. Now each of these commodities must have equally varied exchange-values once any of them can exchange for any one of the others. If we compare a hundred commodities, the number of their exchange-values as against each other will be the permutation and combination of the hundred. Each of these exchange values is replaceable, *as such,* for each other. And yet, although the quantity of one exchange value can be equal to any other, what an astonishing variety of yards, pounds, colors, and tastes! What then have all these commodities in common that they can be exchanged at the same value

for each other at any given point? The relation of any two commodities must, therefore, have something in common with some other factor, some third factor. Or if, say, sixty commodities are considered, they all have something in common with a hidden sixty-first factor that can make them exchange at equal values with each other. Now what is the missing factor?

If the theory that use-value was the missing factor had any merit, we could find it out easily. But although sweetness makes chocolate candy useful, and luster in silk makes it useful, there is nothing in common here. No quality exists in common of the whole world of exchangeable commodities. So use-value is not the value realized in exchange. For commerce, one set of goods of any kind is as good as another, if they exchange at the same value. Different quantities of exchange value have no correspondence whatever with the qualities that make use-values. Use-value, therefore, is not the secret of availability in exchange. But there *is* one common property all goods have. It is their only common property. They are all products of labor.

Now notice that the use-value is not related to exchange value as we have seen. That means that the varying qualities of labor incorporated into the production of these goods has no relationship to value, since value is the expression of the one thing all exchangeable goods have in common. And so it is proved that use-value does not concern economic students.

Abstract Labor Produces Value

Since use-value is eliminated from consideration, then it is not their shape or quality or workmanship that we consider in discussing values, but what we are considering is ***abstract human labor.*** That is made clear in the following way. If use-value or the utility of these diverse objects is not the source of their exchange equivalence, then the different kinds of labor do not appear in their special useful qualities (as painting of pots, silk-weaving), but only as the quantity of labor which is common to all of them. Since that quantity of labor has no common useful properties, we speak of it as abstracted from special types of manipulation; hence the expression, abstract labor.

Now abstract labor looks like an absurdity, or some scholastic concept that no one can imagine. It looks like sleight-of-hand, an economic conjurer's trick. The only labor we see is painting, weaving, trucking. Whoever saw anyone doing abstract labor?

The answer is that the market sees it. If it equates all the labor-products as a common sum of exchange values, the painted object and the sweet object being exchangeable against a cigar and a baseball, then what it equates is abstract labor embodied in all of these articles. The laws of any science are found beneath surface phenomena, their common ingredient rarely being the varied superficial appearances they first present. But in science this is now traditional, we are used to it, whereas in political economy it is new and seems odd and too clever by half. But the embodiment of abstract human labor is the basis of exchange value, despite all the shapes it assumes.

But since abstract human labor can be equated in the universal exchangeability of every commodity against any other in some proportion, it follows that this abstract human labor is the expenditure of *social labor,* of the whole labor of man, as a totality. For Marx always considers all economic phenomena as social totalities, to begin with. As he says, each commodity is a crystal in which its one social substance, human labor, is embodied, and that labor is value. This labor-power is different from labor itself, for labor is concrete, real, whereas this common quality of labor-power is homogeneous (i.e., not varied), and is the basis of value without reference to the special mode or shape or form of its expenditure.

Value Antecedent to Exchange Value

Exchange value, then, merely brings out in the open the common value (that is, abstract social labor) that already resides in commodities. For the something that all commodities have in common must *precede* their being exchanged against each other. Therefore, value is different from exchange value, it is the basis of exchange value, and exchange value is merely the mode by which we perceive intrinsic value, just as an electric current is the means by which we experience electricity.

The Magnitude of Value

Since abstract human labor is embodied in all articles, how is the quantity of value established? Obviously by the quantity of this labor. And what is the common denominator that establishes the quantity of labor, that is, of the totality of labor, of social labor? It is the time embodied in the production of any commodity.

At first blush the time, as the measure of the quantity of labor, seems absurd. Why not some more delicate scale? It seems that this is nonsense since it equates skilled and unskilled labor and makes the work of the incompetent and the lazy more valuable than the competent and the industrious, because the worse the workman, the more time he takes.

But of what labor-time are we speaking? Of the expenditure of one uniform labor-power. Why that? Because the universal exchange-value requires that the corresponding quantity of labor be equally social and widespread.[1] Marx says: "the total labor-power of society—embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labor-power, composed though it be of innumerable individual units." Logically there is no other analysis possible. For here we are speaking not of exchange value, in which value is manifested, but of that value that is primary to exchanges at all, that value which is hidden from us by the operation of exchange value. It is the permanent substratum of all value just as total mass is the substratum of all masses, however they may appear to us in different objects.

Homogeneous Labor Time

Since we speak of one uniform labor-power, it is clear that to make up this total every unit is equal, every unit counts as one. Each contains its divisible proportion of the average socially necessary labor-time. Now this does not mean, of course, that every object contains exactly the same amount of labor-time. Of course they do not. But it does mean that every commodity contains

[1] Clearly, if the average socially necessary labor required to make a pair of shoes is two hours, the incompetent worker who does it in four can receive only commodities in exchange normally given for two hours only.

homogeneous labor-time in its fabrication. If, say, the total social labor-time put into total production is one billion hours, then every unit of labor-time of that billion counts as one. Later on we shall explain the difference between specific labor in each commodity, and the units of labor-time incorporated into each commodity as a divisible sum of the total labor-time, the latter being considered as one social mass.[2]

Socially Necessary Labor-Time

How do we ascertain what is socially necessary labor-time? By ascertaining that time which on the average, under normal conditions of production, is required by labor having the average skill and intensity prevalent at any given time to make any commodity. For we have no way of determining a total except by some less universal referent that we can begin counting with. The sum of these smaller units is the total. If we begin with the average skill and intensity of labor, as normally manifested, and take that as a basis, we have a picture of the social average labor time required to produce commodities, or any articles, whether they be commodities or merely embody use-value. This limitation, prevalent at any given time, is important. For obviously if machines are introduced that enable labor to produce twice as much in the same time, the value (which equals social labor-time) falls by one-half of the goods so produced.

Of course, labor that is wasted, that is, does not result in production, or labor that is superfluous (where more than was necessary was used in order to produce), are not properly social labor-time incorporated into articles. It is only normal, average labor that is properly a divisor of the total labor of society, that counts in the creation of value. Any individual unit of production, then,

[2] The critics of Marx often write as though he holds that two hours in any object means that it must exchange against any other object with two hours labor. This confuses social labor-time with individual variations. A bad worker takes more time than the average social labor-time, a good worker less; their value is their average proportion to total labor-time. To have a composite social labor-time you must have units above and below that average.

is value-forming if it is at about the normal standard of that total.[3]

Now this *socially necessary* labor-time that is incorporated in articles and which gives them their value is not the same as saying that they will exchange for each other in the proportion in which they have value. It would seem logical that when we begin with the problem of exchange value and ask, what is there in common that allows of equivalence in exchange, that when we have found that common denominator we can then reverse the process and say that these goods exchange in proportion as they embody that common denominator. If not, there seems to be an illogical difficulty.

How Exchanges Disguise Value

But the law of value and the law of exchange value are quite different matters. Everyone knows that in practice commodities are bought with money. Everyone knows the commonplace that money here acts as the agent, or on behalf of other goods, since it, in turn, can be exchanged for any goods.

When a clock is sold, for example, it embodies an immense sum of labor-times. There is the fabrication of the clock itself, then the time every unit took to produce, then the time required to make the raw materials that enter into the parts, etc. Nobody really knows the social labor-time employed in the final clock.

When the clockmaker sells his clock he does not ask how much socially necessary labor-time is included in its making. He knows, to use the commercial expression, what it cost him to produce it, how much time he took about it, what is the number of dollars he can get for it, and what else he can buy with the money he will receive.

Now if neither the seller nor buyer ever takes labor-time (social) into account, and it forms no basis of exchange reckoning, of what use is the conception at all? And this question is asked not merely by beginners. The encyclopedic, though hostile, critic of Marx,

[3] Some Marxians, anxious for complete clarity, point out that the exchange value of goods is determined by the necessary time to *reproduce* them rather than to produce them. Since labor may prove to have been excessive by the time commodities enter the market, this distinction makes clearer the concept of "necessary" labor.

Werner Sombart,[4] says of the Marxist theory of value that it is correct but that as this value does not reveal itself in exchange relations of commodities, under capitalism, it is not found in the real world, but is an ideal mental concept, extremely useful only for philosophical exploration of the foundations of political economy.

Many so-called Marxians have pretended that one could do just as well with the rest of the Marxist theory, without concerning oneself with the value that precedes exchange value, and which is manifested only by exchange value, and yet is not exactly measured by exchange value. They decline to believe that the subcellar is necessary to the building, although they often think it correct, "metaphysically."

Since this is a question of pure economic theory we must pursue its implications to the end. The foundations of political economy itself are involved in this very discussion.

How the Market Equates Commodities

In the first place, it will be noted that there is an interesting social approach in exchange values, or in their monetary expression which is called *price*. The market price is the same for all commodities of the same type without any reference to their differing conditions of production, whether the producer is efficient or inefficient, whether his costs are high or low. If a businessman buys a thousand yards of silk from six competitors, he is indifferent to their troubles. He pays for them as social products, as measured against the totality of silk being offered on the market. He makes the same abstraction for himself as a purchaser, that we are told is so metaphysical. He abstracts the specific modes of production of these silk goods, whether done on new or old looms, and asks only of the same commodity that it compete, that is, measure itself, against the totality of silk goods on offer. We shall return later to the common basis embodied in this transaction. It is obvious that it must tend to approximate, as a total of prices, to something like the total of social labor-time, expressed in value. But since it is not an exact correspondence (for reasons to be discussed later), it

[4] Leading non-Marxian historian of capitalism. His historical method, though, has been impeached as unprofessional.

is the fact of social abstraction by buyers that is here cited to show that such an abstraction must take place if economic categories are to exist at all. Since labor, as a totality, is the determining factor to which total prices must be related, why is there no complete correspondence? Why do not the two abstractions coincide?

Division of Producers

Today all commodities are produced for sale by separate producers. Hence the social labor, which is the quantity of value, is not producing socially. It is split up into many private productions. The only manner in which goods can possibly be exchanged, then, is by sale. Hence, unless the value of commodities is expressed in exchange value, it does not emerge. The unsold objects are not commodities, they are merely products having utility.

Labor does not directly serve labor. It serves it indirectly, by way of the exchange process, in the market. Now, to make clear the relation between value and exchange value, let us take up another type of society. For it must be recalled that for Marx all economic phenomena are descriptive only of certain historical *social* relations. A contradiction such as that the quantity of labor determines value but that it is not expressed that *way*, may not be found at all in another society.

And yet useful articles would there be produced. In order to differentiate this society from one in which goods have to be exchanged, let us conceive of it as one in which men would have direct, immediate relations with each other.

Direct Production and Its Implications

Let us take a self-sustaining peasant family. It produces wheat, wine, cattle, flax and linen, clothing, even tools and earthenware. For the family all these articles are products of labor and useful. They do not buy and sell these articles against each other, nor does the labor of the members become manifested only after an exchange. All work is done in common, all goods enjoyed in common. There is a division of labor, but it is a natural division based on age, sex, strength, and also on the seasons. They do not pay wages or have claims against each other, that is, price or property claims. The

whole family is a simple machine which works a total number of hours, and every individual is judged by the number of hours in which he helps along. Those hours are the direct social expression of his labor.

It may be thought such a family society is too simple to bear comparison with a highly developed capitalism, so let us take a communist society, even if imaginary. Here too the distribution among the laborers of that portion of their production set apart for their subsistence (after allowing for the renewal of means of production) could be arranged according to their labor-time. The worker would draw goods from the common store in the measure of the labor-time he had added to that store. All goods would be *seen* by him as produced by his labor-time.[6] As with the patriarchal peasant family, his interest does not conflict with anyone else's in order to determine how goods shall be consumed. His interests are fused with the total labor-time of all producers. This is termed direct social labor.

In capitalism men are related to each other not as men but through the relationships of commodities. Hence their social labor is expressed not in the equivalence of the social labor of other men, but indirectly, in terms of another thing, another commodity.

"Things are in the saddle
And ride mankind"

sings Emerson. His poetry is exact economic theory.

How Capitalism Realizes Value

Engels sums it up, simply. For a commodity to have a given value it must (in capitalism) have the following attributes:

(1) It must be a *socially useful* product (useless products are unexchangeable and the labor in them is wasted; privately useful objects have concrete utility only and not value, so they are not reckoned as part of the social product).

(2) This commodity must be produced by a private person or company for private profit.

[6] This was practically the rule among the advanced Incas, Iroquois, etc.

(3) Although a product of private labor, it is also unconsciously and involuntarily a social product, and exchanges socially, on a definite social standard.

(4) This standard is expressed not in terms of labor, but in another commodity.

Summary: The reason why there must be value at all is that goods are exchanged. In a noncommodity society there is no value. Value is the socially necessary labor-time incorporated into an object only because it is a commodity: this value exists as the common social form which becomes visible in the shape of exchange value. The reason that no one suspects that labor-time is concealed in exchange value is that owing to the production relations of classes whereby direct social labor is excluded, the value of commodities is made known by other commodities, and, in practice, by one commodity, money.

The fluctuations of this exchange value about the real value, while wide and sometimes very errant, do refer, by and large, to that basis, since price itself has to be based on a social abstraction of all commodities in order to give them a common valuation. By this action it ratifies their basis in value.[6]

Value a Transient Category

This tedious analysis, though not inviting, is a necessary discipline. It is now clear that Marxist theory does not use a sterile concept in the underlying notion of value, as Sombart thought. This identification of value, and the fact that it is different from the only form in which it becomes visible, enables the social anatomy of production to be laid bare. It reveals the real relation of capitalism to social labor. It shows that what are called the eternal laws of political economy, such as the law of value, are merely the abstract expressions of temporary social relations, in this case based on the division between social labor and private appropriation. It is the cornerstone of socialist thought.

[6] More simply, oatmeal is always about 10 cents, suits over $10, diamonds above $100, houses above $1,000, passenger boats above $100,000. Their everlasting proportions to each other represent a substantial difference of a common exchangeable quantity, whatever their fluctuations.

To conclude, *value is a transient phenomenon,* characteristic only of commodity production, and is due to the production relations basic to commodity exchange.

The Theory of Labor-Time

Labor-time needs exploration. If, as values, all commodities are, in Marx's figure of speech, "masses of congealed labor-time," it is patent that the value of any commodity would be unaltered if the labor-time required to produce it remained constant. But as it does not, or rather, is constant for only short periods, its effects on value are extremely varied. Labor-time is altered, of course, with every variation in the productiveness of labor. The most commonly met with variables affecting this productiveness are:

(1) The average amount of skill of the workers.
(2) The state of the arts, science, and the extent of their application in practical life.
(3) The maturity of social organization of the workers and their disposition in labor.
(4) The range and capacities of the means of production.
(5) Physical conditions, climatic, etc.

The same amount of labor-time in China and the United States leads to totally different results. That in Massachusetts of the seventeenth century and in the same state in the twentieth, are incomparable. When the sun is kind, the work done in the vineyard is rewarded by flavor and abundance. When it is cold, the wine is acid and the crop short. The same labor applied to a rich reef of gold in fabled Golconda yields far more than an abandoned quartz in Brazil. Diamonds require tremendous labor for their minute bulk.

At first this would seem to modify the theory that value is proportional to the social labor-time. But Marx pointed out in the beginning of his study that labor-time was defined within historical limits. It is the time rendered necessary, socially, by the average skill and intensity prevalent at the time. If the average amount of skill of the workers is imprnved, it means that they do more productive tasks in less time, thus reducing value. If science doubles pro-

duction, the labor-time is cut in half and with it the value added by labor. The crops may vary from year to year but their long-range average time decides their fundamental values. Otherwise wheat would sell sometimes at sixty dollars and other times at one dollar, instead of its limitation to a range rarely more than 50 per cent as against the average price level.

Wasted Labor

If too much time is required by an exhausted vein in a mine, it takes up so much more than *average* social time that it counts as wasted labor. The same applies to climate. Bananas grow by hundreds of millions in Costa Rica with a small expenditure of labor-time for their collection. That is the socially average labor-time for world banana production. Any attempt to raise bananas in Norway would not be referable to average social labor but to wasted labor. This is an extreme illustration, but it shows the content of Marx's doctrine, that the average social labor at any given time is the measure of value for commodities as a total.

The Permanent Tendency of Unit Values to Fall

The increase in the productiveness of labor for generations has meant that the value in commodities has fallen, on the whole. No one can compare the labor-time put into cloth or raw cotton a hundred years ago and today. If the sum total of values has risen, it has been because of the enormous increase of the sum total of all commodities or, in other words, because of the increase in the number of units. But each unit represents less value than it did when productivity was small and it took a greater amount of time to produce each unit.

NOTE: This decrease in value may not seem plausible when it is recalled that prices have risen over the last few centuries. Everyone knows that by and large, the amount of goods commanded by one dollar in the open market was greater a few generations ago than today. Wages of $10 a week were better pay than $15 today.

Here the Marxian method is shown at its best. There is a clear contradiction between value and price; there is no

correspondence whatever in their respective magnitudes. Price is the money expression of exchange value and, in turn, is ultimately the expression of exchange value in gold. What the price of anything measures, as we shall later see, is the labor-time incorporated in gold against the labor-time incorporated in the mass of commodities that comprise the capitalist market. If the hours of labor-time required to produce gold are, say, cut from 1,000 hours to 300 hours, and the labor-time required for all other commodities cut from a base figure of 1,000 to 500, then the prices which were the ratio of 1,000 hours to 1,000 hours, or even, are reduced to 500-commodity-value for 300-gold-value, or it takes the difference between 300 hours in gold and 500 hours in commodities to buy the commodities, or in other words prices have *risen* by 66⅔ per cent, whereas the value of commodities has *fallen* from 1,000 to 500, or 50 per cent. The idea of price is here introduced out of turn, long before its logical appearance, but since this apparent objection will most certainly be made by those who confuse value and price, and who have not the patience to grasp the Marxian system in its fullness before formulating objections, it clears matters to take it up before its time.

Disparity of Value and Exchange Value

It does not follow that commodities invariably exchange, even roughly, consonant with their value. There are commodities on the periphery of the economic system that sometimes sell at less than their value for long periods. Of gold, the cynical epigram is that there has been more gold sunk into the ground than was ever taken out of it. It is, therefore, because of its glamor, a sentimental will-o'-the-wisp, that it invites wasted labor. As for the prize commodity of all, the labor-power sold to the capitalist by the worker, the long periods of hunger and of pauperism indicate that it can often be sold below its value, that is, below the labor-time required to reproduce it and sustain it.

Law of Quantity of Value

But to return to the labor-time theorem of Marx. Since the greater the productive power of labor, the less labor is put into a

given unit, and hence a smaller value results, and the more labor the greater the value, we reach the formulation:

The value of a commodity varies directly as to the quantity and inversely as to the productiveness of the labor incorporated in it.

The Twofold Character of Labor in Commodities—Use and Value

An object can have utility without having value. Wherever no labor is used any such article is wholly without value: air and fresh water in a brook, where no pipe work is required to make it available, virgin soil (before its alteration by the labor of tillage), pasture lands, meadows, building sites, etc.[7] This is true of any useful thing, produced by labor for its own enjoyment, with no exchange in mind. It has a use-value or utility, but it does not have value because it is not a commodity. Value arises only socially, that is, *a commodity must have use-value for others but not for the producer.* But nothing has any value unless it has utility. A useless object cannot be exchanged. The labor that was put into a useless object does not count as labor, for labor in a social sense is creation of use-values that are exchangeable. If it be argued that certain use-values which we state are not values but utilities, such as virgin soil, or meadows, command a price, the fact is that *things that have no value can command a price.* We shall later see that the right to take tribute of the products of labor can be bought and sold, but this is not the price of an exchangeable article, but the monopoly right to hold up producers. The value of land is a capitalized form of *appropriation* whose exact *economic* (ethics apart) equivalent is theft. There is no question here of the social exchange of commodities for commodities.

Use-value contains the *material* content of wealth, value the *social* content, in our present society.

Commodities have this twofold character. But labor which produces these commodities has two corresponding distinct characters as well. The treatment of these two characters of labor is, according to Marx, the pivot of political economy. He proudly stated that this conception was the best thing in his book *Capital.* Upon the

[7] We do not speak of price, only of value. See the chapter on Rent.

proper understanding of this distinction of two characters in labor itself is based his entire theory of wages, of the exploitation of labor and, ultimately, of commercial and financial crises.

Exchange Caused by Differing Uses

Take two commodities. The value of one is double that of the other; say an office coat is worth twice ten yards of rayon. Both of these are entirely different as physical objects and in their uses. A tailor produced one and a weaver the other. The reason that these two commodities are exchanged at all is that they have these different uses. No one exchanges commodities with identical uses. It would have no purpose. The only apparent exception is that on commodity markets, where a grain merchant sells December wheat and buys May wheat. But here too he is exchanging different *utilities,* for use may differ as to time as well as to function. Briefly, in order that commodities may be exchanged at all they must represent different uses, be different specific goods.

The division of labor is required if these multiple uses are to become general. A social division of labor is a necessity for the production of commodities since, unless there are multitudes of separate uses, the enormous number of exchanges characteristic of capitalism could not take place. But though the division of labor is necessary in order to produce commodities, that same social division of labor could serve societies without commodity production, with direct labor relations. Inside a factory there is a division of tasks without the employees exchanging the results of their individual operations. Division of labor is antecedent to the specific social relations of commodity exchange.

Every commodity must have utility; that utility must differ from that of every commodity with which it is exchanged. Each of these products must result from specialized labor, and this specialized labor must be done independently by private producers.

This qualitative difference in products is the result of the conjunction of natural goods and specific labor, and it precedes all social relations. Hence labor does not produce all *wealth;* it is its

conjunction with Nature both as to materials and forces that results in production.

Labor Distinguished by Use and Value

Let us now distinguish utility from value.

An office coat is worth twice as much as ten yards of rayon. Therefore twenty yards of rayon are worth just as much as the office coat. As values, the coat and the rayon are identical, as goods they are different. Is there any significance in the fact that differing qualities have the same quantitative equivalence in values? When we compare the coat with ten yards of rayon, instead of twenty, it now has twice the quantity of exchange value without changing its quality of being a coat by one whit. We know they both incorporate labor. As utility, they represent qualitatively different labor, and this we will call *concrete labor*. As equivalents in exchange they represent *abstract labor*. But it is the same human laboring power that represents both. For a man who works is not divided into two men, one of whom does work as a tailor or weaver and the other as a creator of value. He does only one job and that is his special business of sewing or weaving. We see him doing only a special, single job. How does it come about that the same laborer turns out differing qualities and homogeneous quantities of value? Both tailoring and weaving have one expenditure in common, the expenditure of labor-power. The expenditure of the energy of brains and muscles is necessary to both, whatever their greatly varied forms. These variations are the differing forms of utilizing that expenditure of brain and muscle energies. It is this common expenditure of energy that is the source of abstract labor-power, or value, whereas it is the specific shape of this expenditure that produces concrete labor or utility.

But if the expenditure of ordinary labor-power, that is, abstract labor, exists on the average in every worker, what about individual skill? It is simple to consider the effort of every laborer as a unit, a divisor of total social laboring power. But this is an abstraction. Actually we meet only more or less skilled workers. How does one equate this constant difference in skill with the crude idea of abstract labor?

Skilled Labor

Marx answers that skilled labor counts as simple labor intensified, that is, skilled labor counts as a multiple of unskilled labor. The reduction of these two to a common denominator is constantly being made. The commodities produced by skilled labor are worth a definite quantity of those turned out by less skillful labor. If the market for commodities abstracts the different utilities of weaving and tailoring and beats them both into a common pulp called value, so too does the market beat the differences between more skilled and less skilled into differing magnitudes or quantities of the same pulp of value. Skilled labor may count for twice unskilled labor, as tailoring may count, time for time, for twice weaving, but all are reduced to the one common denominator of abstract labor. Necessarily these have to be reduced to the average labor met with at the time, unskilled labor falling below the average and skilled labor above. This is not to be confused with the question of wages. The skilled laborer receives higher wages for reasons to be discussed later.

What we are here concerned with is the value of the commodity which evidences the labor-time spent in its production. Here everything is a multiple of the social average labor-time, however composed.

Labor Distinction Basic

This elaborate study of the composition and distinctions of labor is often condemned as repetitious, tautological, and wearisome. These critics then delight in a hundred pages of gymnastics on subjective valuation and the gyrations of prices.[8] Here Marx is quite obviously correct when he points out that such scholars are bourgeois. They find it quite natural that the intricacies of business should be fascinating, but that labor, that class without elegance and social standing, is dull. For Marx the labor that is the foundation of all values is the supreme object of study of political economy. His apparently long-winded studies become rich with economic and

[8] Anyone who has worked through F. Y. Edgeworth's *Mathematical Psychics*, or Karl Menger's *Calculations of Needs*, to name only two, would find Marx a relief for simplicity.

social meaning as they reveal the relations of all classes in production and distribution.

We have seen that the difference in value between one office coat and ten yards of rayon, where the coat was worth twice as much, was due to twice as much abstract labor-power being embodied in the coat and, as twenty yards of rayon embody twice the abstract labor-power of ten, that number of yards becomes equal in value to the office coat. That abstract labor-power is the one we measured by time, in the first study of value.

Quality Not a Factor in Value

But it may be objected that men pay for quality as well as for the differences of time due to abstract social labor-power. They pay for the exquisite scrollwork on a fine watch-case because it is finer in craftsmanship than metal-stamping. They do not. The scrollwork is paid for because the amount of labor-time expended in it is enormous for that bulk of goods compared to that for a similar bulk of metal. The difference often is that of a hundred average hours, or a thousand, to one. The differences of quality and workmanship emerge as value only becouse of the differences of labor-time.

We shall later amplify, but in passing it must be noted that by social labor-time we do not restrict the term to the time actually employed in the last stages of fabrication. The ten years of training of a scrollmaker count as labor-time, spread over his average laboring life. The simple labor that stamps metal takes only a day to train. That difference between ten years and one day are also to be counted. The delicate precision instruments used by the skilled laborer took more labor-time in their fashioning, per bulk of goods produced, than the stamping-press of the metal worker relative to bulk produced. We shall later discuss the composition of labor-time, but labor-time it remains. Value is bomogeneous abstract social labor-time, and nothing else.[9]

[9] A good woman is more precious than rubies, the word of God is a pearl of great price, in Heaven there are many mansions attainable by faith. It is not labor-time that makes these priceless, although they embody, to the believer, more beauty than any labor-time can create. If Keats is confirmed

Different Aspect of Labor Creates Quantity and Quality

Therefore the labor in any *commodity* counts only *quantitatively.* The labor in any *utility* counts *qualitatively.* Here is the twofold character of the same labor's daily task. It is the difference between How and What? and How Much? [10]

It follows that all commodities, taken in certain proportions, must have the same value. Their differences are those of proportion only. If an invention is introduced that enables the office coat to be produced in half the time, it sinks to the value of only ten yards of rayon, althougb the tailoring skill in its making is unchanged.

Now the conclusion of this is startling. The increase of utilities is the increase of buman wealth. The more goods, the more the wants of mankind are satisfied. But if these goods are produced in abundance, that is, in less time, as a whole, there may be a terrific drop in value. This is an opposite movement, an antagonistic development. Productive power, when it varies, is manifested by more or better goods, that is, by utilities. But if the laborers continue to work eight hours a day, notwithstanding this gain in creating utilities (in Marx's idiom, use-value), then the total amount they produce, from the viewpoint of abstract labor-time, is unaltered and hence value of the mass of products is unaltered. As there are twice as many of the objects produced, then each represents only half the proportion of total labor-time as before, wbereas the mass of value is unchanged.

Value is always the same for the same amount of time, as a whole. But if the total quantity of goods produced ean themselves be produced in less time, then the total value will fall as well. This

that truth is beauty, it is not related to skill. There is a subtle error in consumption theories. A dear object can be acquired only by the rich. They are "refined." Therefore what embodies more labor-time takes on the attribute of their "elegance." But a hobo who esteems a whiff of prairie air more than their jewels sbows that what they buy is simply so much labor-time.

[10] Concrete labor is valid for any social order; accordingly, abstract labor is valid only for capitalism, or, more exactly, labor has two *qualities,* expressed in its twofold character, conerete and abstract, and one *quantity,* magnitude of value.

is another of the social contradictions brought to light by the Marxist analysis. The twofold character of labor differentiates clearly between utility and value, and explains their opposed tendencies.

Marx Corrects Labor Theory of Value

Herein is Marx's correction of what is called the *labor theory of value.* Adam Smith and Ricardo maintained that labor was the cause of the value of commodities. But they did not know that labor produces two values, one a use-value that is antecedent to the product becoming a commodity and which does not enter into the commodity relationship, or into value itself, which is the labor-time socially required in production and which we recognize only as it appears in exchange. If there were no social contradiction, that is, if goods were produced by labor in direct social relations, there could be no such twofold character of labor. The reason for this twofold character is social, the division of classes, and the realization of value by exchange, that is, the recognition of the value of one commodity by way of another. The crities of the labor theory of value attack the Smith-Ricardo hypothesis which has little in common with the Marxist. Marx neither holds (as nearly everyone believes) that labor creates all wealth, nor that labor creates all value. Only *abstract labor creates all value,* and then only for a definite social reason.

NOTE: Certain considerations have to be taken up here, although they logically belong further on, for objections are likely to be made at this point. They are: Irrespective of the labor put into commodities, are not the more abundant articles valued at less and the more rare at more? In that case is it not the abundance or scarcity of supply relative to demand that determines the value of an article?

The scarcity or abundance of any commodity is itself determined by the quantity of labor put into it. Since goods that require a small amount of labor-time can be produced in large amounts in a given hour, they are abundant and cheap. Goods that require a great deal of labor-time to produce them are scarce for that reason. Abundance and scarcity are merely derivatives of labor-time. The cart is before the horse.

If labor-time is wasted, does this not mean that it is not labor-time that is decisive for values in the long-run, but demand?

Labor-time is not determined by its quantity required to produce an article, but to reproduce it. Hence labor is never wasted for reproduction. But there is no contradiction here in any case. If a commodity took more labor-time than is socially necessary and this is reflected by a falling off in demand, then the reduction of social labor-time in its reproduction measures its true value. If the commodities are not wanted at all, there is no value, because social utility must precede *any* value, but does not determine the *quantity* of value. To resume, either there is some value or no value; if no value (no use, that is), no question of magnitude of value enters. If some value, then social labor-time required to *reproduce* the article is its value. Labor-time alone remains efficient to explain quantity of value.

Does not supply and demand alter prices in excess of any differences in labor-time?

Socially, on an average, emphatically no. Its violent fluctuations are merely the register of altered labor-time relations in the production of the comparative commodities in question. Here too the object reflected in supply and demand appears to originate there.

Small fluctuations, yes, since exchange value is realized by way of price, and since the capitalist system is split into many producers, their mode of obtaining the equivalent of value is by each one individually testing the market. The fluctuations of prices, by stabilizing about the labor-time, are the means whereby that labor-time is confirmed. The variations are, so to speak, the premium for discovering basic labor-time in commodities. It follows from this that it would be extremely rare for two commodities to hit off each other's labor-time at once, since the calculus of probabilities is against such a perfect coincidence, and rather favors any of a large number of intermediate variations in price. These cannot be large variations for the reason assigned by Lenin, that millions of exchanges carried on every day could find no social basis whatever unless they equated *one and the same* labor-power.

7

The Forms of Value

How Value Takes Shape as Exchange Value

Until this time we have analyzed the internal composition of value, using the exchange value merely as a means of leading our way back to the essential nature of value. We now retrace our steps and ask how immanent value acts as exchange value. The exact reason we had to begin with its only manifestation was in order to get back to its nature, just as we deduce the mental substratum of man from his behavior and speech. For we see commodities only with the eye or apprehend them with our other senses. As far as we are concerned in daily life, they are toys, cake, gasoline, freshman caps, not values. As values, they are like Falstaff's honor, " 'tis here, there"—no one can grasp them. But since we know value to be only a social reality, our detective instinct tells us to look for them in the social relation of commodity to commodity, for it cannot be from man to man, as we have seen, for these articles would then be use-values, not commodities. Now the value-form common to all commodities is their value expressed in money.

The task Marx sets himself is to trace the origin of this money form, by beginning with the simplest forms of exchange and developing their ramifications until we are conducted into the gilded chamber of money. It is said that love and currency theories are the two sources of madmen. This money riddle that has led so many to lunacy (and in private life to despair) is the question of the economic sphinx that Marx seeks to answer.

Simple Form of Value

The simplest relation of exchange value (which from now on, unless distinguished, will no longer be differentiated from value; this is an oversimplification, hut useful), is the equation:

One shirt = one box of chocolates.

In this apparently redundant story is the mystery of the value-form. The shirt's value is expressed by the chocolates. Here the shirt is passive, for it is valued by way of the chocolates, which play the active part; they do the valuing of the shirt. In this formulation the value of the shirt appears as relative to the chocolates. In Marxian terms the shirt takes on the *relative form of value,* for we know that value only by its relation to the chocolates. The chocolates, on the other hand, express the equivalent of the shirts, and Marx calls this aspect of the chocolates, the *equivalent form.*

Now this is not redundant. It would add nothing to our knowledge of value to say that the shirt equals a shirt. We have to compare differing *utilities.*

The equation can be reversed to say that one box of chocolates equals one shirt. But that would not affect the value *form.* For in that case the chocolates would have the relative form and the shirt the equivalent form. In any one equation, one commodity must be at one or the other of the poles of that equation, the pole of relative value or that of equivalent value. True, the position of either commodity in the equation is accidental. Either may be the commodity whose value is expressed in terms of the other.

This type of exchange can be called the simple form, or the isolated form, since it stands alone as one transaction, or as the elementary form, since it is primary, or the accidental form because it must have been the first type men stumbled upon. Later on, as exchange became common and goods were exchanged purposefully, each commodity did not have an equivalent found at random, but many equivalents. This more complex relationship of one commodity to many is termed the total form of value, or the *expanded* form of value. But before going on from the simple form to the expanded, let us examine the two poles [1] of the equation of simple exchange, the relative form and the equivalent form.

In this enquiry the quantity exchanged can be ignored; since every quantity implies units of which it is composed, it follows that any quantity may be assumed in discussing the mere act of exchange, for the same value-form would be valid for any given quantity. One shirt = one box of chocolates is the equation.

[1] By poles of an equation, Marx means opposites, like the poles at the two ends of the axis of a sphere or cathode and anode in Roentgen rays.

We are in a different world from that of value itself. When we say an object has value, we cannot separate that value from the shape it assumes, as a box, a piano, etc. But when we see the value-form in exchange, then only can we separate the value of the shirt from the shirt itself, by finding its value in its relationship to the box of chocolates. Now since the shirt is a wholly different product of concrete labor than are the chocolates, it is by way of the value of the shirt being expressed in the chocolates that we discover the abstract labor common to both. Instead of seeing value with the mind's eye, we see it in reality.

Value Is Dead Labor-Power

But there is a still more fundamental aspect of exchange. Human labor-power, while it is on the job, is producing values. But human labor-power itself is not value, it is the creator of value. In what do we find value then? It becomes value only when labor-power has taken shape in some object, that is, after it has made something. In other words, living value is dead labor-power. It is so in the sense that the living canvas of Rembrandt is the memorial to the once-great genius that worked on it.

How the Equivalent Form Acts

It is clear that the poor shirt we are flaunting again must have:

(*a*) Its value (i.e., mass of abstract labor) taking on objective existence, and although that value is different from the shirt itself, it must no longer be concealed, it can only be revealed as something in common with the chocolates or any other commodities.

(*b*) Yet these chocolates which, in the equivalent form of value express the value of the shirt are, for that relationship, but the embodiment of the value of the shirt. For the value in that shirt remains hidden until it makes its bow in the box of chocolates.

This is intellectual tightrope-walking, but hang on, it cures economic vertigo. We are at:

(*c*) But the blessed chocolates after all have a use, they are sweet and with them you can make a girl happy. As chocolates, they no more tell us they are value, or contain value, than

the shirt does by itself. In other words, when placed in relation to the shirt, the chocolates take on an economic character they do not otherwise have. As Marx says, they are like a tramp who looks seedy in his everyday clothes, but superb in a Marine Corps uniform.

We are still at it. Here is the corollary:

(*d*) Not only are the chocolates the mode by which we realize the value of the shirt, but because of that relation they show they are equivalent to it, and in that relation they exist only as *value*. But the chocolates cannot represent the shirt's value unless the shirt's value is taken over by the chocolates. Hence the shirt's value takes on the strange form of the *use-value* of chocolates.

Or, in simple English, we know that a shirt and chocolates have something in common when we exchange the shirt for the chocolates, because we can eat the chocolates. It is their use-value that brings out the hidden inner relationship of value between the two. To recapitulate:

The absolute value of any commodity, is expressed in the use-value of another, with which it exchanges, and in this form it appears as relative value.

It is unfortunate that this exposition has to be given in a scholastic form that resembles the discussions of the immanence of God in man or the essence of the Trinity in Unity. But as the economic deductions come along, it will be seen to have been worth while. Certainly some means had to be found to relate use-values to values, in the form of exchange, since use-values are not economic; we see now that they are the *carriers* of economic value. And the dead products of labor-power can only take on life in exchange. In a socialist society that would not be true, for the objects made by labor would embody no value. But for capitalist society we must determine how the values of past labor are exchanged in the present.

Changes in the Magnitude of Value

The foregoing description ignored changes in the quantity or magnitude of value. These are, on the whole, obvious, but the con-

clusion is not. We shall take as examples linen and a woolen coat. If the labor required to produce linen doubled, the value of ten yards of linen, which had been the same as that of two coats, would be doubled; it would then take four coats to buy the ten yards. But if the time required to produce linen is cut in half, then one coat would buy ten yards. If the coat goes through the same variations of labor required to produce it, its value in terms of linen will alter similarly. But if both the value of linen and coat say, sink by one half, due to improved manufacture, then the relative value of the ten yards of linen to the two coats would be unaffected. Despite the fact that their absolute values would be halved, this would not affect the expression of the value of linen in terms of the coat. Some unchanged third article could alone give us a clue to what had happened. But if all commodities rose or fell in value simultaneously, their relative values would be undisturbed, and their changed values seen only through the alteration of physical output in the same labor-time.

From this it is clear that:

Real changes in the quantity of value are neither unequivocally nor exhaustively reflected in their relative value expression.

"If we lived on the inside of a nut," queried Anatole France, "and the proportions of our minute stars were the same to our little space as those of the true cosmos, would we know the difference?" And then he asked with alarm, "How do we know we do not?"

This is not quite the problem here. For Marx, value is a quantity. It is expressed in relative form, as its manifestation. But the relative form is a carrier, a manifestation. It can never change the nature of the hidden value, the quantity of social labor-time. What Marx means is that the manifestation of value in the value-form is not a true picture of the actual magnitude of value itself. All other things being equal, it reveals the proportion of values of any two commodities in exchange. It can do no more.

NOTE: It may appear that Marx has oversimplified the question of relative value. If the supply of flax were to be brought down to next to nothing by a series of crop failures, would the labor required for the small quantity of linen to be produced

from the debris of the crop really be expressed at the ratio indicated? Say that the linen used ten times the labor than formerly to produce the same yardage. Would the proportion of value in the linen really rise so high that instead of two coats being exchanged for ten yards, twenty coats would be so exchanged? Long before that point was reached, other textiles would be used to substitute for the linen. The labor used in its fabrication would be wasted labor, unremunerative, and so far from commanding ten times the value, it might command no value at all. The issue, although presented here, will logically take place in the study of market values, or the full Marxian theory of deviations from value.

It is frequently argued that all values are relative, that is, that since we know of value only through the comparison of commodities in the market, it follows that we can conceive of no change in value. One thing goes up, another must go down relatively to it. There can never be a general rise and fall of value. This idea, championed by John Stuart Mill, has disciples even today, like Prof. E. R. A. Seligman (cf. B. M. Anderson, *Social Value*, Houghton Mifflin, 1916, ch. 1). They are opposed by most economists who view value as a quantity, but not in the Marxist sense. Some view it as costs, others, like Tarde, as psychic magnitudes.

From the Marxist viewpoint, of course, this is mistaken. The relative expression of value is a mere manifestation of the underlying magnitude, of social labor-time. Hence it is the form in which the proportions of magnitudes of labor of any two given commodities (or even a larger number) is discovered. But discovery is different from the thing discovered. The key of Marxism is that the value of commodities is the quantity of abstract labor incorporated in them. It can rise and fall in the most astounding manner, and it is the movement of total values that is the record of productive achievement.

It is argued that if A falls because B with which it is exchanged rises, while, at the same time, the labor put into A remains untouched, the labor theory of value falls to the ground. (Not the Marxist theory of abstract-labor time-value but the classical theory of Ricardo.) It argues that there has been a change in one constituent without a change in labor, relative to the other. Marx's answer is complete. It is the

same as arguing, he says, that the figure 10 exists in the fractions $\frac{10}{20}$, $\frac{10}{30}$, and is constantly becoming less in proportion to the series of numbers it divides. Therefore the magnitude of 10 cannot be a constant, for it falls in relation to the other figure of the fractions!

Value Not Expressed by Another Value

Since Marx does not hold, with the other economists, that the exchange relation of a commodity determines or affects its magnitude of value, he takes the simpler step that a commodity's value is expressed not in the value of another commodity (for that would be Ring-around-the-Rosy), but by that other commodity itself, physically. We see, to go back to our old stagers, that a shirt is worth a box of chocolates only because the shirt-seller will accept the chocolates as an equivalent of the shirt's value. Not the value of the chocolates, but the chocolates themselves, express the value of the shirt. The chocolates, though, as the equivalent form of value for the shirt, cannot make manifest their own value-form. It is only the shirt which, because it has the relative form of value, reveals its own *quantity* of value in that exchange. The chocolates present the shirt with their own use-value in which the shirt can express its value.

The number of shirts exchangeable for chocolates will depend on the value of the chocolates. But as we have seen, the value of the chocolates, so long as they are the equivalent form, cannot be manifested. So it is not the value-form of the chocolates that measures the quantity of exchange value in the shirts, it is the social labor-time in the chocolates that acts as the measure for the number of shirts for which they can be exchanged. The value of the shirts (again!) is expressed not as so much value of the chocolates, but as so many chocolates. *You cannot express value by value, but value by things.* So that when any commodity acts as the equivalent of another, we never know how much value it has; we only know how much of it is required to express the quantity of value of the commodity of which it is the equivalent.

This may look oversubtle, but note one thing. The value-relation is not reversible. If the chocolates take the place of the

shirts and occupy the relative pole, every one of the above deductions still holds. The equivalent commodity in any value equation always embodies in its physical nature the quantity of value of the relative commodity, and itself does not reveal its own value, or quantity of value.

Illusions Due to Exchange

Two implications follow. Since the chocolates reveal the shirt's quantity of value merely by being chocolates, it appears as though the value-form embodiment is a natural attribute of the chocolates just as sweetness is. But we have seen that this is a mere relationship as against the shirt. But since the physical nature of chocolates does not depend upon their being related to shirts, and still it is only their physical nature that reveals the quantity of value of the shirt, the property of exchangeability seems to be as much of an attribute of the chocolates as is their sweetness. For this error, which confuses the permanent body of the chocolates with their temporary social relationship to the shirts, Marx uses the expression (later to prove the navel of his system) the *fetichism of commodities.* The exchangeability of the chocolates is transfigured from a relationship in an equation to its becoming an immanent quality of the chocolates themselves.

The concrete labor (candy-making) in the chocolates expresses only the shirt's value, when acting as its equivalent. In this part, it does not act as chocolates, but as the appearance of the shirt's value. It is equated to shirtmaking as abstract labor. The labor in the chocolates, then (their specific labor of candy-making), by being equated with the wholly different quality of shirtmaking, becomes the materialization of social abstract labor, the bodily form in which their common attributes are expressed.

Thus the second peculiarity of the equivalent form is that concrete labor becomes the manifestation of its opposite, abstract labor.

Which leads to the third peculiarity. As abstract labor is socially necessary labor-time, common to all employments as a homogeneous mass, and concrete labor is private labor, then it follows that:

In the equivalent form, private labor assumes the form of social labor.

General Theory of the Elementary Form of Value

Marx holds that the expression of value in the relationship of exchange, originates in the nature of value.

But for the majority of economists (nearly for all), the value of objects, and the amount of that value both, *originate* in the exchange relation itself, or, to be more exact, are originated by that exchange relationship. The old hoarders of the seventeenth century thought that value originated in money, the free-traders of the nineteenth century (who had to sell their factory goods), thought it originated in trade. For Marx it begins in the production process, in labor, and the exchange relation merely brings it out. The non-Marxian economists appear to have a case because the value in one object is expressed by the use-value of another. The other way round, Marx summarizes; it is the contrast between use-value and value that is made apparent by the relation of exchange.

Since use-value is an attribute of all objects, and exchange is the attribute of all commodities, the elementary form of value is the primitive form in which commodity society is foreshadowed. It is by the development of the value-forms that the ripening of commodity society becomes noticeable. It is clear that the elementary form of value (one shirt equal to one box of chocolates) is far away from the developed economy of a complex market and price-forms. The simple equation of value does not give the qualitative equality or the quantitative proportionality of the shirt to every other commodity existing. But since any commodity can be at either pole of the elementary form of value, it follows that we get the beginning of a long series.

The Total or Extended Form of Value [2]

The extended form of value can be expressed as follows:

$$\begin{array}{r} \text{10 pairs of} \\ \text{gloves} = \end{array} \left\{ \begin{array}{l} \text{one overcoat} \\ \text{fifty pounds of coffee} \\ \text{thirty bushels of wheat} \\ \text{three footballs} \\ \text{one ounce of gold} \\ \text{etc.} \end{array} \right.$$

[2] W. H. Emmett's term; usually translated as "expanded." Emmett's use is more idiomatic.

It is clear that all these commodities are at the equivalent pole of value compared to the gloves and that all together act as with respect to the gloves as the chocolates did to the shirt in the simple form. The abstract labor, that is value, is made more graphic when we realize what a variety of employments equal glovemaking as social labor. And the same applies to quantity of value. The gloves are now, by virtue of form of their value, related to the universe of commodities. It is seen, as it was not in the simple form, that irrespective of the use-value in which it is expressed, abstract labor can be expressed. The value of the gloves remains unaltered in quantity no matter what commodity expresses its value-form. For they all serve in the equation to express its value-form, and they themselves, as with the chocolates in the simple equation, cannot express their own value-form. In the elementary equation, the relationship might appear as accidental; here that cannot be thought. It is not the exchange of commodities, therefore, that regulates the quantity of value, as the economists think, but, as the extended form of value shows, it is the magnitude of the gloves' value that controls its exchange proportion to everything else.

From the Extended to the General Form of Value

In the extended form there are serious working defects. On the relative and equivalent sides, items can be added to infinity, so that the equation need never be closed. On the equivalent side, the varieties of concrete labor are so great, and, as each one of them is a specific embodiment of the value of some commodity on the relative side, we do not get a unified picture of abstract labor, but only one of fragmentary equivalents. In order to make the extended form, not merely an illustration of complex exchange relations, as compared with the simple form, but also a general representation of exchange itself, it is necessary to complete it.

Since the extended form is really nothing but a series of simpler equations, as

10 pairs of gloves = one overcoat
10 pairs of gloves = one ounce of gold
10 pairs of gloves = three footballs

each of these can be inverted, as

1 overcoat = 10 pairs of gloves, etc.

Hence we can invert the whole equation of the extended form as follows:

$$\left.\begin{array}{l} \text{1 overcoat} \\ \text{50 lbs. coffee} \\ \text{30 bu. wheat} \\ \text{3 footballs} \\ \text{1 oz. gold} \\ \text{etc.} \end{array}\right\} = \text{10 pairs of gloves}$$

which Marx terms the *general form of value*.

At first nothing would seem to be gained. We have shifted all the commodities on the equivalent side to the relative side and the single commodity, ten pairs of gloves, to the equivalent side. What is the object?

This: the equivalent side is one commodity. It means that all the multitude of commodities realize their value in a single article. For one and all commodities, there is only one equivalent, which expresses all their values. This is not quibbling. We saw that the simple form of value equation is irreversible. Hence when we transfer all the commodities from the equivalent side to the relative side, they not merely change their places in the equation but they now become commodities whose value has to be expressed in the physical form or use-value of another commodity. The elementary form of value, that in which value is realized in a single commodity, is restored.

But the earlier forms, both the simple and extended, could only present the value of the commodity as something distinct from its use-value or its material form.

In the simple form, only two commodities are distinguished and we have no certainty (except that of logic) that their action is typical. In the extended form, value is expressed in a multitude of differing use-values, but there is no general expression of value common to all of them, and not merely to each one taken separately.

The general form of value, by expressing the whole world of commodities in terms of any single commodity, especially selected to stand apart for this purpose, now means that a million commodities can be measured against one, gloves.

The use-value of gloves, then, expresses their value in the other

commodities, and separates their values from their use-values. For the first time, all commodities are realized as values, for the first time they can be effectively expressed as exchange values; they are so many gloves, no matter what their nature.

Unique Aspects of the General Form

In the less advanced forms each commodity had to find another in which its value was expressed and the equivalents played a passive part. They merely mirrored the value of the others. But the general form of the value means that it is the joint action of the world of commodities, and only that total action that results in the expression of their value in the general equivalent, gloves. More than that, every new commodity must follow suit, for it too must express itself in that general equivalent. No commodity can acquire an expression of its value except as part of a simultaneous expression of all commodities in one commodity.

Now it is evident that since the existence of commodities, as values, is purely social, this social existence can be manifested only in a social relation, which relation is given in the General Form of Value. Not only are all commodities now qualitatively equal, in that they all have expressed values, but now their respective quantities of values can at last be ascertained. By expressing these quantities in only one object, gloves, they are compared with each other. Thus we know that one overcoat equals fifty pounds of coffee, and that three footballs are equal to an ounce of gold because of the proportions in which each of them is exchangeable for gloves. Then it is clear that as much labor-time is required to produce three footballs as one ounce of gold, and that these two embody just as much labor-time as thirty bushels of wheat. The abstract substance of labor in them is manifested in the general expression of values, gloves.

Labor Implications of the General Form

The gloves are the temporary home of all values. The private labor of producing gloves now becomes the social equivalent of every other kind of labor. Glovemaking is converted from a private activity into a social character, equality with all kinds of labor, that

is, into social labor-time without reference to concrete achievements. But not only is it manifested negatively (since abstract labor-power is negative with reference to concrete labor), but it manifests itself positively as the reduction of all kinds of labor to one character, that they are all expenditures of undifferentiated human labor-power.

The general labor form shows that since the gloves, on the equivalent side, represent all other commodities as being, like themselves, embodiments of the value resulting from social-labor-time, and that since all commodities are made so comparable because they are congealed masses of abstract, undifferentiated human labor, in the world of commodities, it is human labor that is its specific social character. The social character, then, of commodities, does not rest in inanimate objects but in the human labor of which they are embodiments. Not goods are exchanged, but human labor in substantial form.

> NOTE: The opposition between the relative and equivalent poles of value-form becomes more sharply defined in the General Form of Value. In the elementary form either the shirt or the chocolates could take either pole, though the value-form would be unaltered. In the General Form, however, since all commodities except one are on the relative side, a reversal of the equation is impossible. It would change the nature of the value-form, of the special function of the *general equivalent*.

The general equivalent (which we have made gloves, for purposes of illustration) can of course be any commodity whatever. Actually one commodity has become the universal equivalent of all others. That commodity is gold. The name given to the universal equivalent function of gold is *money*. The manner in which the value equivalence of all other commodities is expressed by gold, is called *price*.

Gold—the Universal Equivalent

We have been led to this gilded chamber by the corridor of the elementary form of value, then through the antechamber of the General Form of Value. There, all other commodities are now on

the relative side of the equation of the value-form and gold alone is on the throne, on the equivalent side. Since about the sixth century B.C., it has enjoyed that position and the revolutions of mankind have singularly failed to shake it. It is a testimonial to the need, in commodity production, of a universal expression of the immanent value in every commodity.

It is the last term in a series that began with the elementary form of value. We are now on the threshold of exchange and price.

8

Why Karl Marx's Theories Are So Complex

At this point it is necessary to take stock. The sinuous path of economic theory in Marxian form (which we are only beginning), already leads us to something like the serried scholastic propositions of St. Thomas Aquinas on essence, being, incarnation, or the other counters of his lively mind. Nothing emerges as what it seems to be. There is a hidden aspect to every appearance. Superficially it would seem as though there were a mystic in Marx, a man who preferred the inner explanation of everything to the outer.

The next question is, is it so difficult? Millions of persons have followed Marx. True, not more than a small percentage could explain the distinction, say, between use-value and value. But there must have been a natural language in Marx that corresponded to a common perception.[1] If his theory of fetichism, which we shall soon study, is correct, then his widespread following must avail themselves of their practical experience in identifying his discoveries and so recognizing them as revealing reality. And the third query is, is the difficulty in Marx or in the society whose economic activity he analyzes? Is the complexity theirs?

Here Marx and his critics diverge completely. For Marx the difficulty is in the social structure; for his opponents, such as Böhm-Bawerk, it rests in his "mistaken assumptions."

Marx states that a commodity, at first sight, appears trivial, easily understood. But under examination it shows astonishing metaphysical subtleties and niceties. But we can hold this miserable business in our hands, supposing it to be a pencil, let us say. How does all this subtlety enter the wretched pencil? As a pencil, having the utility of writing, there is no mystery. What it does and what it is is as plain as can be. Nor is it mysterious as a product of labor, for

[1] Anyone who has taught Marxist economic theory to British coal miners knows that they grasp its intricacies more easily than do Oxford dons.

surely someone had to make it. Nor is its quantity and quality strange, for they are easily distinguished. Nor the fact that it is produced and distributed by men working together. There is nothing mysterious there, either, for men work together before everyone's gaze and the job is seen for what it is. That it is a social product is evident. And yet that pencil has given birth to a series of equations that stretch out like Banquo's descendants.

The Mystery of the Commodity Form

The mystety lies in the form itself. Because:

(*a*) The equality of human labor is expressed not as this equality but as the equality of distinctly different commodities, such as, say, catnip and encyclopedias, as equivalent values.

(*b*) The quantity of social labor-time put into each commodity is not expressed in a direct comparison of time but by the indirect mode of equal quantities of value.

(*c*) The mutual relations of producers are expressed only by the exchange of their products, and it is this exchange that is the only nexus uniting them as workers. My co-operation with the grocery-store owner is by way of his selling me apricot cans and mine in handing him money, the equivalent of the apricot cans or of any other commodity. We are related by the commodities, and by them alone.

(*d*) The social character of labor, that is, its relation to total human output, appears as something else, as the value relation of a host of commodities to one universal equivalent (now money).

(*e*) Every commodity therefore is a compound of a material factor, utility, and an immaterial factor, value; it consists of attributes that the senses can detect, such as weight and shape, and of a social substance that cannot be detected, value. This value, which is the social relation, due to our form of property relations, is assumed to reside in the things that are exchangeable, instead of in society itself. This transformation of the nonmaterial aspect of the commodity into an attribute, like weight and shape, is a fetichism, that is, an assumption that a figment of the brain is a reality and can act on its own account.

Commodities are, in other words, as fabulous as the centaur, half-man and half-horse. The anatomy of such a creature would have been complex indeed.

Since production is private, the producers necessarily can have no contact except by their products. In a social state, they would not have to exchange these respective products. They might send all of their products to a common warehouse: they might receive consumption goods through co-operatives on a basis entirely unrelated to what they produced. They would all know that they were producing together, that they were consuming together. But no one would bave to exchange *his* product against another in order to keep going.

This system might not appeal. That is not the point. Its existence (and there have been a great many societies on this basis) [2] shows that the realization of value of the product by way of another product is due not to the inherent nature of the products but to the conflict in the social character of production; to wit, that it is of no use to product unless goods fulfill a social want, and yet their private production is not for social use, but for exchange, for profit. That is why the relations of commodities are direct, by purchase and sale, or more primitively, by exchange, while those of men are indirect (based on property relations which, in turn, are based on men's relation to commodities).

Now we see why Marx took up the study of a single commodity like the pencil. It is, as has been stated, the germ-cell of all commodities, of the structure of commodity society. In that one pencil is united every contradiction of value and use-value, of social production and private enterprise, of abstract labor (value) and concrete labor (the utility prior to an object becoming a commodity). The two types of labor are the keys to the twofold nature of commodities.

Labor-Time the Implicit Basis of Exchange

The fact that we do not see that we are always exchanging labor-time does not mean that we do not do this unconsciously.

[2] The Jesuits in Paraguay, Janissaries in Turkey, monastic orders, Filibuster communities (seventeenth century), etc.

Consciously we see that we are exchanging them against money. But actually, when we have to compare one commodity to another, and exchange more for one than the other, we recognize their labor-time, indirectly, by means of the quantity of value realized in exchange. Value, says Marx, carries no label saying "I am social labor-time." It carries rather a social hieroglyphic, "I am five dollars' worth."

Perception Is Not Analysis

That this perception does not affect behavior is still beside the point. We still think we are breathing a simple affair, air, instead of a complex of gases. It will always feel like one substance when breathed. That does not change its chemically composite nature. But as early as 1670 economists developed a naïve theory of labor as the cause of value because it was more and more forced on their attention that there must be a common denominator back of different exchanges. But so long as they thought that use-value was the same as value they continued to attribute the quality of value to goods as they did its weight or its chemical composition.

Reflection Reverses History

Man's reflections on life, says Marx, have to go the opposite way of history. He takes every finished result of a development for granted and then painfully penetrates it, so as to restore the factors that followed each other in its evolution. He wends his way back from money to exchange and from exchange to production and from that to labor, and later discovers how labor has changed in character with the social growth of industry, how it can now be considered as a social mass. So at first he takes the complex results to be simple and natural, and is shocked by the complexity of analysis when what he is really doing is to get down from the complex to the simple, natural constituents. Marx's indictment of all other schools of political economy is that they are forced to disregard all contradictions and act as though the surface phenomena, which for him are the inversion of truth (that is, the exact opposite of political economy), are "economics" itself.

Value Not an Intrinsic Quality

For example, certain economists debate as to what part Nature has in producing value, whereas value is social labor-time. But back of this question lies a fetichism. It is the belief that pearls are valuable because they are lovely, and diamonds because they are brilliant, and gold because it glistens, and that loveliness and brilliancy and glistening are inherently more valuable than sweetness in cheap sugar, pungent smell in cigars, etc. Perhaps orchids are inherently more valuable than common roses. Who knows? The fact that if gold could be produced by a new process or that if carbons like coal could be crystallized into diamonds, the diamonds would fall to the value of coals, indicates how fetichistic this is. The sun glitters more than does a billion ounces of gold; it has no value, it is free to all comers. A view of Vesuvius presents more colors and smoke-forms than the convolutions of all the orchids ever raised and every Neapolitan beggar has it for nothing. Sometimes the glistening of gold is worth twelve times that of the sheen of silver, and sometimes sixty times. What happened to their "natural value"? A change in labor-time in their production.

Only one school of bourgeois economists has seen that the value of goods was not in the goods themselves, and that is the Austrian, or marginal utility, school. Their theory has other defects, but not this one. But the Marxians hold that when their theories are worked out, they too must participate in the fetichism of commodities because they do not understand the nature of value as due to class division, and against utility itself.

No chemist has ever found value in a commodity.

If, too, value is an attribute of goods, if it is all as simple as it looks, what is the cause of headlong crashes in price during a crisis? It is the rough-and-tumble alignment of exchange values to the labor-time that is hidden by the exchange operations.

Every commodity's value has been expressed by another commodity. It had appeared as though it was the owners of the commodities (the buyers and sellers) that determined their exchanges. But their helplessness in a crisis shows that, like a house's falling due to gravitation, values are pulled down to the imperative demands of labor-time. Relative values can never stray far from their basis.

The values were not inherent in the commodities. The mode by which this alignment is made is called "supply and demand." But this is another fetichism, that of its means of expression being transfigured into the situation itself.

Fetichisms Are Discarded

Society does outgrow certain fetichisms. For example, the mercantilists held that gold and silver alone were wealth. The criticisms of Adam Smith annihilated those childish ideas. He replaced the apparent wealth of the world, money, with the real wealth, goods that money represented. But the followers of Smith attributed to capital the same material properties they had ridiculed in gold! So long as Marx's study of the twofold character of labor is not heeded, he holds, so long will it be impossible to create a science of political economy. So long as economic activity is based on the difference between appearance and reality, its study will require the patience of Job to penetrate the veil.

9

Exchange

The process of exchange requires, of course, a fully developed legal system (that is, apart from occasional barter among primitive peoples). It is based on the recognition of private property and it guarantees the proprietors of commodities that all acts of trade require consent on both sides. The persons contemplated by the law are considered merely as adjuncts, that is, as related to each other merely as owners of goods. As Marx states, "the characters who appear on the economic stage are but the personifications of the economical relations that exist between them," as in an old Morality Play. The phrase of Lord Macaulay, "Law was made for property and for property alone," stresses this.

Commodities Unwanted by Owners

Commodities, to begin with, are not wanted by their owners. These proprietors confront each other as people who want to get rid of what they have so as to acquire something else. As far as they are concerned, they do not care what the use-value is of the objects they own. The beautiful question of Omar Khayyam about wine dealers is pathetic,

> I wonder often what the Vintners buy,
> One half so precious as the stuff they sell.

Another attribute of any commodity is that to it every other commodity is a brother, if it is exchangeable equally. Bibles look kindly on chewing gum, swords on Peace-Society pamphlets, flea-powders on flea-circuses. It is the old phrase, "Money doesn't care to whom it belongs."

As for the owner of this surprisingly democratic affair, the commodity, he regards it merely as a device for obtaining goods that he can use. (We are now going behind the money-mask.) All com-

modities are non-use-values for their owners and use-values for their nonowners. Since each of these worthy folk can attain his heart's desire only by exchange, it follows that the act of exchange, which realizes value, must precede the consumption of use-value by the acquirers of each commodity.

But the use-value itself must exist prior to the exchange, for unless there is an exchange possible, there is no proof that the commodity *is* socially useful. Unless it is socially useful its labor has produced no value, for it was not social but wasted labor.

Exchange is the *proof* of the commodity. The commodity owners as private persons desire to acquire other use-values than those they had. But they also seek to realize value (their proportion of social labor), whether or not the commodity they have got rid of has use-value for its acquirer. For the act of exchange is the realization of value. This act is social.

Money Reconciles Particular and General Equivalence

But the same transaction cannot be wholly private and wholly social. Every owner thinks of his commodity as the general equivalent for any other. Every other commodity is, of course, a particular equivalent of his. But unless there is an agreed universal equivalent there is no general form under which their quantities of value can be equated. In order to achieve a universal equivalent, they have to pass from private transactions to an agreed social action, the isolation of one universal equivalent. This is money.

From Barter to Money

It arises almost as soon as the commodity form becomes important. For barter is even simpler than the elementary form of value. It exchanges use-values of two isolated objects. These objects are produced not to sell but to use, and so it is the act of barter that, for the first time, converts them into commodities. As soon as there is a surplus of goods, tribes begin trading with other tribes, and that is true even of communistic societies as complex as the Inca empire. That builds up the need for foreign objects of utility, for uses not provided for by production within the tribe.

The repetitions of exchange make it normal. Then certain

objects are made with a view only to being exchanged for other utilities. They are made for the other tribe, not for their own. Exchange value, as against use-value, is born. The trading of multiple articles means that valuation by way of barter becomes unworkable, and soon a general equivalent is used to create order out of the anarchy of commodities trying to express their values in an infernal congress. These commodities at first are not permanent. First one, and then another, commodity is elected, according to convenience. But as trading grows more varied and important, fewer and more constant commodities are used. They are less accidental. Two possibilities for this function are the most important articles got from outside or the principal object of the tribe's internal life, like cattle.

Nomad races are the first employers of the money form because nothing they own is fixed, like houses, plowed fields, etc. They are exposed to the influence of more outside tribes than are stay-at-homes. Slaves are sometimes used by them as the universal equivalent, but land, never. Not until the English squires of the days of William III tried to break the back of the money-men by creating a Land Bank was nonportable money conceived of. Such desires, too, sprang from a shortage of hard cash.

Adaptability of the Precious Metals

The precious metals eventually become the money expression of the general form of value. The precious metals, gold and silver, perfectly fit the need and will fit so long as commodity society exists, whatever the hopes of inflationary theorists. Money (i.e., gold and silver) shows uniform qualities in every sample. They are the perfect embodiment, then, of abstract undifferentiated labor, for they are alike in every form and subdivision. The differences of quantity of value are expressed perfectly by a perfectly divisible commodity. They can be divided or reunited at practically no loss.

These two fundamental attributes, homogeneity of quality and perfect divisibility, or increase without change of nature, make gold and silver the ideal embodiments of what is hidden behind exchange value, to wit, value.

It is hardly an accident, but rather a vivid social teleology that

made these metals money. It might be said that any other metal might do as well, say iron. But it is too heavy. Here are two metals, malleable, ductile, fairly rare as compared to the common metals (therefore prized as embodying an appreciable amount of labor), shiny, durable, decorative, prized in the arts, for plate, etc., produced at a reasonably even rate, divisible into coins without loss, and portable. No better combination was found in the Lydian days of the sixth century before Christ, and in our time it is still intact. All governments that run away from it have their shoddy money valued against it, whatever their devices.

Gold and silver then are not fetiches, but selected commodities, surviving among many contenders. They most conveniently and durably serve as universal equivalent.

All commodities thus become the particular equivalents of money. As Balzac put it, at last there is something that closes the cycle of needs.

Money a Commodity

Money, therefore, is only a commodity delegated to do a certain job, that of representing universal value. It is not a mere symbol. It is not a mere convention. Prior to its use as money, it too has value as a commodity. Ten pounds of gold have a value, and this value is the labor-time spent in their production. If the labor-time of ten pounds of gold be expressed as two thousand hours, it is worth two thousand hours embodied in umbrellas, Mickey Mouse toys, or books of Marxist economic theories. At the mines, its value became manifest in barter.

The so-called mystery of money is the mystery of commodities, except that since money is the last term of the series, we see it most sharply there.

We have seen that a commodity having the equivalent form of value appears to have that form independently of its relation to the other commodity; that is, the property of reflecting value seems given to it by nature. The same error applies to money. It appears that all other commodities express their value in gold because it is money, whereas it is gold that has become money in consequence of all other commodities expressing their values in it. Since commodities

find their own value completely represented in gold, gold as it comes out of the mines is at once the incarnation of all human labor. With the usual faculty of every economic appearance standing on his head, the money appears to be inherently the measure of value. But it is the measure of value of its own labor-time; money merely represents that value, that is all.

10

Money, or the Circulation of Commodities

For the sake of simplicity, Marx assumes until later, that only gold is money. Money's first task is to translate hours of labor into quantities of gold.

No matter how commodities once expressed their value, now they do so only by way of gold. Money, as we have seen, also incorporates labor-time, and so has a value. But as the expression of values in money is called price, money has no price.

Price As an Ideal Form

The price of commodities is, of course, an ideal or mental form, quite distinct from their physical form. The value of any given commodities, say woolens and meats, is made perceptible by their equality to gold, but a perception of their relationship is still mental. Price is the ticket or advertisement of that equality. And for such a purpose, the use of a price is just as good as actually exchanging the commodities for gold. Hundreds of millions of dollars' worth of goods are exchanged every day in the United States (and, in boom days, billions of dollars of securities) and, on an annual basis, this far exceeds the supply of gold.

Where money, then, acts only as a measure of value, it is used as imaginary or *ideal* money, since no gold is employed. This occurrence has been the reason why the earth is deluged with monetary theories. Every wiseacre and crackpot, every dreamer who thinks that the social contradictions of the human race can be solved by rearranging these tickets, picks on this imaginary measure of value and triumphantly annihilates specie, or gold. But the Marxian basis is as original in this analysis as in its unique theory as to why the precious metals were selected at all as money. And as it could not have identified that completely without a prior

theory of abstract labor, so here prior theory is essential to get past this quagmire of political economy.

Price As Related to Value of Money

However much imaginary money may express of manifest or measure value by price, the quantity of that money that measures value will always depend on the actual stuff (here, gold) that is money. Even if the prices of goods exchanged are expressed ten times more, in countless transactions, than there is money in use, that money in use determines the price and not all the imaginary transactions based on that real money. Value must always be expressed through another commodity: this is the first law of the value-form. Here that commodity is gold, and no imaginary representation of it can replace the quantity of labor that goes into gold. Where a double standard of gold and silver is maintained, and the silver becomes less valuable than the gold, that is, is produced in less labor-time, the prices expressed in silver are higher than in gold, irrespective of all the welter of quotations that goes about both metals. Gold becomes the ultimate universal equivalent, the unique repository of value.

(For convenience, money is divided into divisible parts called coins. The unit from which these parts is reckoned is a certain weight of gold. In the United States an ounce of gold is *called* [since 1934] $35.00. Before that it was *called* $20.67.)

Gold As the Measure of Value

Gold is thus the measure of value and, as a fixed weight of metal, is the standard of price. As a product of labor, and therefore variable as to the amount of labor-time put into it, gold is a value-equivalent. The standard of price, being a conventional weight, is best fixed for long periods. A change in the value of gold, then, may affect its position as a measure of value (it will measure less value of goods whose labor-time has remained constant) but this will not affect it as a standard (not amount) of price. No matter, then, how much its value varies, gold may remain unaltered as the standard of price, even though its changed value is shown by the higber or lower prices of other goods in terms of gold.

(Gold costs, say 2,000 labor hours. Iron costs 400. We express the price of iron in gold as 1:5. Gold is more easily produced. It takes 1,600 hours. Iron is unchanged. The price of iron is now as 1:4 to gold. But gold is unaffected as the standard of price, for iron is still measured against so much gold.)

No matter how much gold changes in value, its function as a measure of value is unchanged, for it is still the universal equivalent.

Variation of the Price Equation

Prices vary with reference to gold on a simple basis. That is, either gold is produced in less time and commodities (or any given commodity), in the same, and then it takes more gold to obtain the same amount of commodities, that is, they are dearer; or in the reverse case, where gold is constant in labor-time, and commodities decline in labor-time, it takes less gold to obtain them and they become cheaper. All possible combinations of these two tendencies follow the same proportionate law. Where money is clipped, or debased with baser metals, or the units changed, then prices are changed simply because the standard itself is tampered with.

The coins receive names, and as a result prices are expressed in money of account, that is, not in so many ounces of gold but in so many special names, so that we do not say that a coat is worth an ounce of gold, or that a piano is worth a troy pound of gold but that a coat is worth $35 and a piano $420. That makes it still harder to remember what the universal equivalent is about, that it is a commodity like any other. So price is expressed, not in precious metals, but in names of certain weights which as coins have a special title: dollar, pound, franc, ducat, mark, ruble.

Hence, price is the money name of the laborer realized in a commodity. Here the ground becomes slippery. It might seem that price is just another name for value, since money is the universal equivalent of value and price is merely its money ticket expressed in coin-names. But once prices exist, apart from variations in the value of gold, or of commodities relative to gold, due to changes in productivity, price has an existence of its own.

The Independent Action of Price

In the first place these money-names express value and also express a divisional part of the standard of value. Thus a dollar is a thirty-fifth of an ounce of gold, or a 420th part of a troy pound, as well as being the standard of value, that is, one dollar, in whose terms all reckoning takes place. But the worst of it is that if, for any reasons (which we discuss later), the value of wheat and gold remain constant as quantities of labor, yet, owing to temporary speculation, or what one will, there is a dislocation of that value, it will express itself in price. The ratio between any *given* commodity (not the totality of commodities) and gold may deviate over and above the ratio that expresses labor equivalence.

This possibility of such an incongruity is inherent, Marx states, in the price-form itself. That does not mean to say that for the totality of commodities the labor quantity can be deviated from. But the price-form is a *mode of exploration;* a probing of the market for values is only possible through establishing prices.

The price form here is not defective as a picture of value, nor does it impugn the law of value; it is merely the blundering method of an anarchic society, blindly trying to find its way into the right values. Price is its white cane with which it feels the edge of the sidewalk. Hence, the price-form, with all its fluctuating deviations from value, is the capitalist system's method of discovering that underlying value.

Price Used Metaphorically

Prices disguise the value relation in another, quaint manner. Price is the mode of the expression of money. Hence prices can express any relationship. Bribery is paid for in money; "every man has his price," said Sir Robert Walpole. "A cynic is a man who knows the price of everything and the value of nothing," was the scintillating summary of the worldling by Oscar Wilde. "The price of liberty is eternal vigilance," is a metaphorical transfer. In London, a house was referred to as the abode of £ove. Thus these immaterial things like honor, etc., take on the same form as commodities. These objects have no value, but they do have price. The same with land—site-land, that is. No labor has gone into a

building lot, but the surrounding activity of the population and the municipal services allow its owner to charge other people for what they have communally created. Here an object, not made by labor and having no value, commands a price.

Still, commodities must follow the form of value; that is, for any commodity, say iron, to become effectively exchangeable, it must take on the shape of gold, as the shirt took the shape of chocolates (in the elementary form), so as to effect their transubstantiation into exchange value. If the owner of the iron wants to convert it into a universal equivalent be must replace it for gold.

Under all the covers of the price aspect of the money-form of the universal equivalent commodity, as a measure of value, there rests the basic commodity, fashioned by labor, hard cash.

The Medium of Circulation

To begin with, Marx never uses the phrase "means of exchange" as applied to money. Commodities are a means of exchange,[1] money a means of circulation. In considering the circulation of commodities, it must be remembered that the money-form in no way changes any relationships previously discussed. Subject to all the contradictions of value, it is necessary to study the change of form in commodities that accompanies and eauses the social circulation of goods.

Simple Circulation

From now on there are two exchanges, that of goods or commodities, and the money-commodity. Commodities enter the process of exchange as they are. Commodities as use-values are now opposed to money as exchange-value, instead of to any other commodity. The difference is immense, for

The commodity is a use-value, whose value is now expressed in price, and the money is a value-form, but its use-value is ideally represented by all commodities.

Acting as the universal equivalent, money requires evety commodity exchanged for it to seek another useful commodity by its (money's) intervention in the excbange process.

[1] *Capital,* Vol. I, p. 57 (C. H. Kerr & Co., Chicago, 1910).

A weaver has twenty yards of linen. We now call their value ten dollars. He sells the linen and gets for it not another commodity but the ten dollars. He then buys a great family Bible for the ten dollars. What has he done?

(*a*) The linen, a depository of labor-time, that is, value, he gets rid of for gold, which is the value-form of linen.

(*b*) This value-form he parts with for another commodity the Bible, which is a use-value to him.

(*c*) He has converted commodities into money in order to convert them into commodities again. He performed two acts: he sold in order to buy. He has got rid of a use-value he did not want for one he did. Effectively he could have bartered but that would have been one transaction; this is two.

Expressed in a formula, he exchanged Commodity—Money—Commodity, from now on termed *C–M–C*.

As far as the objects are concerned it could have been *C–C*. That is the end of this simple transaction.

The Nature of Sale

Now let us study *C–M*, Commodities into Money, or just a sale. Every commodity owner has a multitude of wants, since he is a human consumer. But he has not a multitude of goods (as a producer he is limited by the division of labor), so that the only way he can satisfy his wants is to get hold of the universal equivalent. To get that he must coax the money out of somebody's pocket for his goods. That can be done only if someone wants the use-value of his goods. Owing to the division of labor, and constant changes in production, or new styles, and to the fact that production is planless, so that everyone may be fed up with the objects our unfortunate vendor has to sell, his labor in the production may be wasted, for these or a multitude of reasons. But suppose his use-value has a market, that it will coax some money. How much will it entice?

The lovesick commodities pine after money, but their Juliet is capricious. When the seller arrives, even if we assume that he is not overpriced as against other producers in his line, let us say that his commodity has been slightly overproduced. That means that a part of the social labor of the community was wasted in his case.

All his wares (say they are shoes) count in the market as one article, shoes, offered against all others.

The quantitative division of labor acts now just as does the qualitative division. They are free independent producers ("competitors" is the commercial phrase), but the market is free of the will of these producers. They are not independent, they are dependent on the market for their products. They have converted products into commodities, true, but they must convert those into money.

At the same time the division of labor, by making quantities produced and qualities produced planless, makes the possibility of this sale accidental. It may or may not be realized, although, as a social average, it must be realized. What then? It may command a price either above or below its value. The labor may be compensated or under- or overcompensated. No one is too sure in advance.

The seller by the sale replaces his commodity by gold, the buyer his gold by a commodity. The commodity is exchanged for a universal equivalent, the gold for a use-value, to be precise, a particular form of its own use-value. The realization of a commodity's price is, on the part of the buyer, the realization of the ideal use-value of money. The sale means that the single process is really double, every sale is a purchase. This may look as obvious as the nose on one's face, but the fact that *M–C* is also *C–M* leads to important consequences. It is clear that the owner of money is usually someone who has previously effected a sale to get the money. Money strips all labor. No piece of money tells us for what commodities it has been an equivalent. Only at the mines, where gold is bartered or shipped, does it have a clear origin.

The point of the foregoing is that:

(*a*) We no longer have the exchange of commodity owners with commodity owners, but with money-owners, and these money-owners, having acquired their money out of a long series of previous exchanges, prove that the money represents any commodities whatever. Social circulation replaces accidental barter. The sale for money differs from the sale with which to acquire a commodity, for the first was still within the old reference of commodity for commodity.

(*b*) The economic reason why sales are difficult and selling the end-all and be-all of commercial life, is that the particular commodities, which are partial aspects of production, have to seek their exchange with the universal equivalent, *which needs no market.* What appears to bourgeois economists to be an even situation, commodity for money, is nothing of the kind. The nature of exchange is changed when partial productions compete against an indispensable equivalent.

How Money Acts as a Means of Circulation

The producer of any commodity has that article to sell. But with the money he acquires, he can buy innumerable articles, for money, unlike any other commodity, can be split up to serve for many purchases. A single sale therefore may release a *number* of purchases. *C–M* is turned into *M–C*. Every buyer is a seller at some time, but these positions are not permanent, they are attached in turns to persons engaged in the circulation of commodities.

NOTE: Marx summarizes the complete circuit of a commodity and money as follows: The commodity's value-form is in money. But so soon as the commodity is exchanged for money, money is an equivalent form, true, but it has to seek the use-values of other commodities so as to become a realized equivalent instead of only a transient possibility of acting as an equivalent. The idealist philosopher who described the universe as the permanent possibility of sensation was near to this description. It may be said, how has money changed? In the first case it was the equivalent form, and it awaited a commodity in which to fulfill that equivalent form. Now it is in the same position except that it is in the hands of the seller of the commodity, its former owner having exchanged it against that commodity. But Marx is dealing with its function. It began, for the purposes of analysis, as the equivalent form of one commodity. The moment we consider it as in the pockets of the seller we assume it is free to act as the equivalent form of *any* commodity. So soon as the former seller becomes a buyer of commodities he converts the money in his pocket from a possibility of acting as an equivalent form to its actually acting as that equivalent form. So much for the money.

But the commodity is not the same. At the beginning it is not a use-value, its object is to be exchanged; at the end the commodity, to be consumed, is a use-value. Money, in the first stage, was a crystal of value, in which all commodities are to be solidified, but in the second stage it dissolves, as Marx puts it, into a transient equivalent form which is destined to be replaced by a use-value.

Money Overcomes Barter Limitations

But the circulation process is not so simple. We spoke before of the fact that money points to a long series of past exchanges, and that the numerous wants served by money make it the point of departure for future transactions. Each seller becomes the buyer of many objects, and so the original *C–M,* which is *M–C* for the buyer, leads him to sell the *C* and is the starting point for *C–M–C*. That means that the circulations of commodities are in an endless chaïn, related by money. They appear as social labor, for they are freely exchangeable, without limit as to space or persons, for any other commodity whatever. Millions, nay, billions of acts of exchange become normal.

The forces of society grow, for no man is master of these billions of transactions. They are a social average, and men are in their vortex. In primitive barter the persons who produce still have some control over value. This is shown by the mad haggling of Arabs and the thousand per cent fluctuation of prices in a few minutes when trading beads with savages. But the larger the number of transactions, the more their equivalences are averaged, and the more nearly price forms tend to equate to labor-time. Everyone enters a market in which prices are given within narrow limits, so far as he is concerned.

As Marx says, it is because a weaver has sold linen that the pious merchant can sell him a Bible, and because he has sold that Bible, that water of life everlasting, the pious merchant can buy the water of temporary life, vichy. Everything becomes everything else. The virtuous supply the wicked, the wicked the good.

In barter, the objects cease circulating as soon as the use-value is obtained. The savage trades skins for beads and that is the end of it—he displays the beads. But in the circulation of commodities

every commodity takes the vacant place of another in the circle, and the money is in the itching palm of somebody in the circuit. This difference from barter rests in that in the one case use-value ends the process, whereas in circulation nothing ever ends it, or ever will, world without end. It does away with the superficial story that money is merely a convenience to achieve the ends of barter more handily. That dictum overlooks the specific functions of money.

Money Runs from Hand to Hand

Another mistake repeated *ad nauseam* is that since purchase involves sale and sale purchase, the circulation of commodities necessarily is in equilibrium. Of course, purchases equal sales, when made. But that is identity; now let us look for significance.

To sell, you must have a buyer. But who says that the owner of money, the man who has just sold, that is, must buy again? There is no direct identity, as in barter. There one sees a complete equivalence. But with money which runs from hand to hand, going further than ever from any original transactions of exchange in which it began, who says that the process must be kept up? There are times when it does not, and then we have a *panic,* a *crisis,* or even a less aggravated case, slow trade, bad business etc. (in modern times). The circulation of commodities immensely facilitates exchanges true, but it also ends the equivalence of barter, an equivalence by definition. Marx crowns his study of the contradictions inherent in the division of labor into two modes, use-value and value, with this observation:

> The contradictions of commodity economy, that private labor can only manifest itself as social labor, that concrete labor can only pass as abstract labor, that objects become personified and men are represented by things, all these contradictions which are *immanent* in production, assert themselves, and develop their modes of motion in the incomplete and contradictory process of circulation. In them is the *immanence* of crises.

Notes on the Marxian Theory of Value

The social function of the oscillations of price about value is that through those variations are expressed the division of social

labor into various branches of production. Whether pants are overproduced against the amount socially necessary, is determined by the price rising or falling above or below the proportion of labor-time required for their production, as against total labor-time for all production.

It does not follow from this that the various branches, by these variations of price about value, effect an equilibrium in the long run. Rather the tendency of these several spheres of production to seek an equilibrium about value is a forced tendency due to the constant disturbance of that equilibrium. Pants producers, when prices are disastrous—that is, are far below labor-time spent in production—will try to reduce production and so achieve an equilibrium with value; but no sooner do they do this than other factors enter that upset the equilibrium again.

Hence the idea that there is a constant groping of prices for value does not mean that the totality of production is represented by a series of branches of production that compose a total in equilibrium. It is rather that the total labor-time, in all production, is divided among branches of production, each of which is selling well away from labor-time, and being constantly driven away from perfect correspondence with it, despite their counter-tendency to approximate it. This counter-tendency expresses the fact that the totality of values and the totality of prices are the same, as representatives of labor-time. But a total can be made up of sections that are *never* in equilibrium, since it is a *predetermined* total in any case.

Hence Marx does not say that values exchange for equal values in commerce, even in the long run, but that the totality of values is social, whatever the anarchy of individual prices that rages within it. Hence *average* prices do not coincide with values either, only *total prices*. Nor is social labor—that is, work done in common—the same as socially necessary labor, for social labor may be wasted, but socially necessary labor is summed up in the total value of commodities.

Exchange value is not value expressed in relation to another commodity, but by way of the body of that commodity, both related to the labor-time in each of them (we were disregarding variations

from value). The fact that one commodity is in the *relative position* in the form of value does not mean relative to the other commodity as value, but relative to it as the *carrier of the value common to both,* and precedent to the emergence of the exchange-value so expressed.

The Social Meaning of Value

Value is not the law of equilibrium of economics, in Marx, as it is in other systems. It is the fact that labor can never be manifested, except by exchange, and under a form that negatives the exchange of time for time, that characterizes value as the summing up of *disequilibrium,* of the sum of contradictions between labor-time and the private production which ascertains that labor-time, not directly but by way of other commodities. From value to form of value, from that to money, from money to profit, from profit to the purchase of labor-power, from that to contradictions of production and consumption and thence to crises and unemployment, this is an unbroken chain beginning with the theory of value as the *socialist critique of capitalist production.*

Money, the Buyer's Medium

It is necessary to pass from the simple circulation of commodities to that complete form which we experience daily. For crises are only implicit in the simple circulation of commodities, whereas with us they are full-blown. Since money is no substitute for barter but has economic attributes and implications of its own, so also the circulation of commodities must be distinguished from its forms before capitalism, so that its specific action today may be related to the circumambient machine production. This interaction must produce new economic principles.

The commodity is always in the hands of the seller, *but money is always in the hands of the buyer.* Money's motion is one-sided, although exchange is two-sided. Money is a buyer's goods.

The circulation of commodities means, ultimately, the replacing of one commodity by another. But it takes on the appearance of having been effected, not by the commodities changing their form, which is ultimately what it amounts to, but rather by the money acting as the medium of circulation. The commodities have no motion in themselves. They are transferred from bands where they

have no use-value to hands where they have. To all seeming this is effected by the action of money, especially as the direction of the trades is always opposed to the direction of the money. That is, money is steadily withdrawing commodities from circulation by moving them to the consumers. It steps into the place of the continuously withdrawn commodities. Hence, though this constant motion of money is nothing but a function of the transfer of non-use-values by seller to use-values by buyer, it seems as though it is the movement of money that moves the commodities, that it is primary. Since the motion of all commodities takes the money form it is easy to see how this mistake takes place.

Money Moves Opposite to Commodities

To be concrete: the weaver exchanged linen for the Bible. He received a coin for the linen and gave a coin (the same) for a Bible. That coin was twice displaced, once for each movement of commodities, to sell and to buy. The coin moved opposite to the goods. When the commodity linen was sold, it went to the seller. In the seller's hands it stands ready to buy; never the opposite. But if the weaver sold the linen and bought nothing, the money would have circulated once, reflected only one motion of commodities. (We are now talking of simple circulation from direct production to direct consumption. The more complex phases are treated later on.) But although every commodity ultimately steps out of circulation, so as to become used, money, the medium of circulation, keeps in the circuit. How much money is absorbed in this task?

Quantity of Money Required

If we take the number of commodities exchanged every day, counting every transfer of commodities as one, taking the value of gold as constant, and prices as given, we multiply the number of exchanges and quantities exchanged by the prices and in this way find the amount of money circulated. That does not mean the amount of coins, or paper notes, since one dollar bill or one quarter can go round several times in one day. It means the amount of money circulation; or, mathematically, the quantity of money acting as the circulating medium is equal to the sum of the prices of commodities divided by the number of moves made by the money that

day. The total number of moves, on the average, once being known, we can soon distinguish the average number of moves of each coin or bill, and thus ascertain the average velocity of the *currency of money,* or, in simpler language, the rate of turnover of each coin or bill. But since the circulation can absorb only the average number of coins required, and these can be calculated, banknotes can replace coins within these limits without interfering with the price level.

Since the total quantity of money acting as the circulating medium is determined by the total prices and quantities of circulating commodities (not of those that are not exchanged), and by the number of purchases and sales, and these are variable, so is the velocity of their medium, money, equally variable so as to conform.

Obviously if the circulation of commodities increases and prices are constant, the velocity will increase or, if the prices diminish and the quantities exchanged diminish and the frequency of exchanges diminish, then there would be a diminution in the money-turnover and in the amount of money required. Any combination of these three factors can readily be calculated. Declining prices accompanied by a greater demand for more commodities, and brisker sales, might mean a gain in velocity of currency of money, for example, despite the drastic decline in prices. These three factors in commodities—price, quantity sold, number of transactions—so largely compensate each other in practice that the velocity of money, apart from panics, does not vary as much as might be thought from imagining the possible combinations of the three variables.

"Quantity Theory" of Money Disproved

To summarize, the quantity of the circulating medium is determined by the sum of the prices of all commodities circulating, and by the velocity of currency. And these being once known, the quantity of gold that is current as money (or functioning as money) depends on the value of that gold. It is commonly held that prices are determined by the quantity of the circulating medium ("the quantity theory of money"), or, rather, that prices depend on the amount of gold in a country, rising when the gold is abundant and declining when it is scarce.

This implies, as Marx humorously says, that commodities never

have a price, that is, that price is not a confirmation of an underlying value, but that the price of commodities is a mere reflection of money. And it also implies that money has no value, for if it had, that would admit of comparison with other values or, in other words, the labor-time in commodities would be seen as preceding their manifestation in price.

Marx's fundamental idea must be recapitulated. Labor-time is value. That value is manifested in exchange. That exchange requires a universal equivalent. This equivalent is another commodity with labor-time embodied therein. This commodity, gold, or money, is the medium of circulating other commodities.

Therefore the stagnation of trade—that is, reduction of the number of exchanges or lesser quantities exchanged, or their lesser prices—determines the amount of money required to circulate them; hence commodities determine the amount of money required, and not the reverse. The quantity of precious metal utilized, therefore, must ultimately be determined by the value of gold, given the service of money as determined by the three primary factors in the circulation of commodities. Gold as a commodity enters into the sum of values in the sphere of commodities. Commodities are primary, and the idea that prices depend on the supply of money stands on its head. It is another instance of fetichism; the money that is the servant of the exchange of commodities, and itself a commodity, is thought to have fetichistic, i.e., magic powers of compulsion by itself, and so it is believed that a shortage of money eauses stagnation of trade.

The unbroken chain of reasoning of Marx, from the beginning, must be kept in mind, if one is to reject the common delusion that the difficulties of society are found in the sphere of circulation (that superficial aspect of the underlying production relations of commodities). (Superficial here means superimposed, but apparent.) The fundamental relations of production will remain the core of economic analysis.[a]

Later on, the important question will be dealt with, as to whether tbe use of money for commodities is as basic as it once

[a] Except that currency inflation may be used as a *mode* of insidiously reducing real wages.

seemed, and whether the turnover in stocks of the New York Stock Exchange—for example, of, say, $1,000,000,000 a day, as was seen in 1929—does not overwhelm in quantity the transfer of actual commodities. This, which is a confirmation of Marxism, and not its contradiction, is part of the financial implications of commodity production.[3]

Coins

The standard of prices (money) is fixed by the government, and this standard is divided into certain parts and given names, as coins. These coins wear away during use and so they really symbolize, after abrasion, a value greater than they have. The government can use baser metals than gold, also as limited symbols of value. Hence it coins silver quarters that are not worth twenty-five cents in gold and pennies that are worth virtually nothing. These token moneys are limited as to tender. You cannot offer a quarter in payments up to any amount but only up to a small limit, otherwise this partly fictitious money would rival gold, and then everyone would hoard the more valuable gold for himself and pass on the silver to the other man. Once governments were able tn push out overvalued coins as good money, even for a very limited time, now they have learned to replace gold with nothing material at all, that is, with paper money.

The Theory of Paper Money

In so far as paper money actually circulates in place of gold, that is, acting as gold, and not beyond, it does not affect prices. If we know by experience the minimum amount of gold that must be current to effect trade, the issue of that amount of paper and the withdrawal of that amount of gold causes no harm.

Gold expresses all values and paper is the symbol of that equivalent. If the amount of paper money issued is twice that of the amount of gold required to circulate commodities, then that paper money is a symbol for only half the gold, and hence prices expressed in that paper money have to rise, because they are in effect expressions of

[3] For an entertaining picture of the importance of speculation see B. M. Anderson, Jr., *Value of Money* (New York, 1916).

exchanges of commodities against only half the value in gold. But this paper never has a life of its own as many people think. It never changes the nature of circulation so that gold would become superfluous as the commodity acting as universal equivalent. The General Form of Value taught us that. Paper always refers back to its material base—gold—of which it is never more than a symbol.

Paper money must not be considered as similar to checks or notes given by businessmen and discounted at the bank. Paper money is a symbol of the means of circulation, while checks represent only *means of payment*. Payments arise in consequence of the circulation of commodities as already expressed in their medium, gold. Hence paper money represents gold, whereas checks represent orders on the bank to pay out either these symbols or this gold.

Primitive Hoarding

These foundations of the treatment of money, however good as economic theory, must strike the ordinary man as unreal. For him money is not a means of circulation at all, but something to hang onto, to love, to amass, to hoard, to dream about, to cheat for, itself the one greatest object of economic life.

Since it is the one form in which all exchange value (as opposed to use-value) is congealed, it satisfies men's abstract hunger for possession and power. With it you can buy not just this or that but *anything*. The miser or the plutocrat counts the actual coins with bony fingers, as in Molière's plays; or there is Anatole France's hero, Samuel Box, who never ate more than a wafer, never bought anything, but who died, a martyr to his bank account, when he was asked to surrender a dime at the point of a revolver. These caricatures express the idea that money has become abstracted from its circulating functions, become an end in itself.

In some countries, like India, hoarding is almost incalculably great. The hundreds of millions of pounds sterling worth of gold that India was able to ship to England after 1931 to buttress the crumbling reserves of the imperial center, showed that even industrial development there has not appreciably affected the age-old custom of hoarding.

Since among primitive societies wealth is expressed not by ex-

changes but by the accumulation of use-values, gold and silver hoards are extensions of the tribal habits. In exchange-societies men see that they have to purchase to satisfy their wants, but that to sell, on the other hand, is uncertain and takes time. In order to be able at any time to buy without selling, it is necessary to have retained the proceeds of previous sales and to have refrained from buying. So here we have commodities sold and no further purchases made by the recipients of gold.

The repetition of this results in the diffusion of money among large circles of sellers of commodities. The greed for gold grows with its practice. Just as money annihilates all qualitative differences in goods, making them all mere prices, so money levels all distinctions. It dissolves all hereditary ranks, privileges, and sanctities. Among the ancients the wise men saw that you could have a social order, or a money order, but not both.

Economic Foundations of Hoarding

The desire for money (the universal buyer that need never buy) is insatiable, not for literary but for economic reasons. Each piece of money is limited, but money as a whole is unlimited. It can command any goods but only, alas, to a certain amount. To command any goods to a larger amount is a necessary extension of the desire to command any goods, in place of desiring only some specific goods. The only way money can be sure of commanding everything is by its commanding nothing, that is, by being taken out of circulation. But no hoarder or saver can take more out of circulation than the amount of commodities he puts into circulation. He produces hard in order to sell in order to obtain the gold in order not to buy. Hard work, abstinence, avarice, these are his ideals. Glossed, they are the religion of rich men. The more elegant hoarders put their money into gold and silver objects, fashioned in the arts, and thus cover their avarice with the sauce of taste. Hence bullion is hoarded, coins are hoarded, gold and silver objects are another form of reserves. This reserve has its uses. It serves as reserves of coin that comes into circulation when commodities require a greater supply of the medium of circulation. It is necessary, then, that there be a hoard in every country or, in other words, that

the supply of money be always somewhat greater than is required to function in circulation. Usually the central hanks do this hoarding. That gives the system elasticity.

Means of Payment

It is necessary to recall to the student that even now we are dealing only with the simple process of circulation, which ignores time.

But commodities require differing times for their production. Before their prices can be realized the owners may have a long wait. The two equivalents, commodities and money, are no longer simultaneous (as has hitherto been our assumption). But now money becames a future equivalent, that is, the seller and huyer become creditor and dehtor. (That relation can exist independent of commodity circulation, as in antiquity, hut here it is produced hy commodity relations.) Under this new aspect, money is not merely an equivalent, it is also a *means of payment*. It is, in Marx's language, an "ideal" form of payment. By this he means that the money is not actually paid over, hut exists only in a promise to pay, yet commodities are circulated therehy. This promise to pay is the "ideal" under which a real payment is anticipated hy the vendor.

The seller is ready to ship before the huyer can pay. This relation of creditor and dehtor, as well as huyer and seller, is a new antagonism in society, and one that has led to immense social disturhances.

Credit the Opposite of Hoarding

Credit is the opposite of hoarding. In money, as a means of payment, the commodity leaves circulation before money enters it. The huyer, who is in debt to the seller, has to sell again in order to get the money with which to pay, or he will be sold out; that is, a part of his assets will be seized to make good what he owes. Therefore money is not any longer the means wherehy commodity circulation is hrought into being, but the means wherehy it is brought to a close.

The value-form of any commodity (money) now hecomes the end, the object of a sale. The huyer has to convert his commodities

into money again and to circulate commodities once more before he can pay for the first transaction. The seller's commodity thus has passed into consumption before it has been converted into money. And this leads to more complications.

Clearings As a Money of Account

There is a chain of payments. A creditor, as soon as he receives money from a debtor, may himself have to hand it over to someone who is his creditor. There are differing lengths of intervals between sales and the due dates of their payments. Purchase and sale are no longer simultaneous. There is an interlaced series of notes of differing maturities representing interlaced claims in which nearly everyone is alternately creditor and debtor.

An economy in the use of the media of circulation is brought about. As soon as merchants meet in one place, the claims of *A* against *B* can be matched by *B* tendering his claim on *C* and *C* can in turn cancel his claims on *A*, so that all the claims could be extinguished without any movement of funds. (This is an idealized relation, of course. The circuit is rarely as perfect or as evenly matched. But to the extent of mutual interdependence and matched amounts it is a good illustration.)

Or, there may finally result a certain amount, $12,000 left over after all claims are extinguished, in favor of *D*. Only one amount is paid and four claims are ended.

The more the payments are concentrated, the less is the quantity of means of payment in circulation. In so far as the payments balance one another, money is merely money of account; in other words, a mere measure of values. But even when real payments have to be made, money does not serve as a circulating medium. It appears here, independently of specific transactions, in clearings, as though it is itself value, not a servant of commodities circulation.

Weakness of the Credit System

But as soon as there is an interruption to this method of settling a myriad claims against each other, this ideal form of money is abandoned. Everybody then wants real money, gold. That is what occurs in every crisis. During a boom the businessmen all prove

that only goods are money, but in a crash, when the claims that so easily circulate are interrupted, and can no longer be collected, gold alone is desirable. No one wants any use-values, no one wants any ideal money. They want a commodity, an incarnation of labor-time, a repository of value that can buy any other commodity. Where the system of clearing means of payments had made money seemingly abundant, it now becomes scarce. At such times gold or its representative, paper money, commands fantastic premiums. Those who hold uncollectable claims are "ruined."

The Quantity of Money Required in Credit Economy

How does this affect the previous theory of money? The equation of the currency of money is as follows in a society using means of payment (checks, bills of exchange, promissory notes):

Given the rapidity of movement of the circulating medium (money) and given the means of payment, then

the sum total of money current is equal to the sum of the prices to be realized, plus the sum of payments falling due, minus the payments that balance each other, minus, finally, the number of circuits in which the same coin serves in turn as means of circulation and payment.

That looks formidable, but the differences from earlier definitions are in this: the sum of payments due on balance are added to the older equation, but this is offset by the economization of the use of coins due to clearing arrangements. (By coins we include paper money that represents them.)

The simple exchange equations that we had before are no longer of service in computing the mass of commodities being circulated by the quantity of the circulating medium. For now money represents commodities that were used long ago. Commodities circulate that have never been paid for. Past and future in both commodities and money are no longer related quantity for quantity. Especially so as now credit notes from buyers to sellers begin to be enormous and coins, gold or silver, are used mostly in retail transactions.

Now it is that money appears as a means of payment for other

items than commodities. Rents and taxes are no longer paid in kind. No longer can the farmer pay the king's taxes in portions of the crop he has produced, nor the tenant his landlord in wheat. Once money passes from currency to means of payment, it is free of any physical limits, except the inexorable limits of economic law that bring it sharply into line with its metallic basis during panics. Hence hoarding takes the modern form of accumulating means of payment, bank accounts, notes, etc.

International Money

In the relations between states, that is, between the differing nations of the earth, only gold in the shape of bullion is international money. All local names are gone, dollar, pound, franc, mark, yen. All paper money, anywhere and everywhere, is valued against it. Even the other precious metal, silver, comes to be quoted in terms of gold. At this writing, silver, in London, in a free market sells for 35 cents an ounce and gold for $35, that is, 100 to 1. We are far indeed from William Jennings Bryan's gallant attempt to value it compulsorily at 16 to 1 against gold. If the German mark is "blocked," that means that German money has no unrestricted quotation in gold. It is a conventional money depending on the longevity of commercial devices to sustain it, and then only in a puny, restricted measure. In international trade money functions only as the natural form, that is, as a commodity that embodies labor-time, that has value. It is the direct social form in which abstract human labor is realized in markets. And there is no other.

Notes on the Theory of Money

Money is the only purely social form of wealth, since it has no meaning except in circulation: it has no use in and of itself. (That is, as money, not considering the utility of its base, gold.)

It should be noticed that Marx does not mean by an inflation that the amount of paper money to be issued shall be defined as inflationary if it is excessive with reference to the coin which it represents, but only if it exceeds the price functions accomplished by that gold.

Hence while Marx holds to the labor-time in gold as the

measure of its function as universal equivalent of values, he does not hold that the totality of prices is measured against it in the crude fashion of so many labor-hours in total production against so many in gold. The Marxian theory of money arises out of the theory of value, but the price differentiation in it indicates that the social content of the division of production privately, as expressed by the need for prices, plays a part in the efficiency of money. In the section on present-day implications of finance, this question is treated more fully.

It is true that Marx's money theory was magnificently begun, but it is one of those aspects of his theory that can be made more valuable by much greater detailed treatment.

11

— Capital

The Transformation of Money into Capital

The circulation of commodities is the starting point of *capital*. It is in commodity production, circulation, world commerce, complex uses of money, and money instruments as these were manifested in the sixteenth century that the foundations of capital are laid. Money is the first form in which capital actually appears. When we speak of capital, we mean, to begin with, that moneyed wealth of the merchant and the usurer, as they are distinguished from the landed gentry. But not only in the sixteenth century, but today, we can clearly see that all new capital comes on the scene—whether as exploiter of labor, seller of commodities, or even of money—by the way of previous money, that has to be transformed by a special process into capital.

The difference between money and *money as capital* is nothing other than a difference in their form of circulation.

At last we are at the threshold of Marx's edifice, capitalism. First he studied commodities, then exchange, then money, and now capital. Up to now money has been described as a circulator, but not as capital. Even its auxiliary behavior, as in hoarding, still did not make it capital. Although capital begins as merely a different mode of circulation from ordinary money, still it leads to a study of the production process, back again to the commodity, but at an infinitely higher level.

The Use of Money to Acquire More Money

Instead of *C–M–C*, in which we ended with commodities as we began, or we sold in order to buy, we have a totally different form, *M–C–M*. Here we transform money into commodities in order to acquire money. We buy in order to sell. This money that circulates as *M–C–M* is potentially capital. Instead of money acting as a medium in circulating commodities, in which money runs from hand to hand ever farther from the first commodity but still always

moving a commodity, no matter what form it takes, we now have another motion in which money always returns to the same hand in which it began. What happens when *M–C–M* takes place? I buy 100 yards of silk for $175. I sell the silk for $200, and I have $25 more than before and no silk. I get down to *M–M*. In other words, in *C–M–C* I exchange a non-use-value worth $175 for a use-value of $175. I have what I want and it is all right. But if I exchange *M–C–M* and I get $175 for the silk for which I paid $175, I am a fool. The notion of equivalence no longer governs. If I can do no better than get $175 for $175 then I might as well hoard the money as risk it. I must hope to get $175 plus, or there is no motive. Not equivalence but profit is my purpose. But whatever my object, if *M–C–M* is adhered to, win or lose, I am in a different world from the commodity trades of non-use-value for use-value. True, in both cases there is a commodity, a buyer, a seller, and a third medium, money, which circulates the commodity. But one begins with a sale and ends with a purchase and the other process begins with a purchase and ends with a sale. The goal is more money, not more commodities or availability of use.

In *C–M–C,* the money is spent once and for all and the goods are used. In *M–C–M,* money is laid out so that it can come back. The money is not spent, it is advanced. In *C–M–C* the same money is changed twice, once in money, once in sale. In *M–C–M* it is the commodity that moves twice, for the buyer takes it from a seller to hand to another buyer. The double movement of the commodity returns the money to its origin.

There are further differences. If I sell a fountain pen for five dollars and buy a pair of shoes with the proceeds, my money is spent. The shoe-seller has it. If I sell another fountain pen, true, I have another five dollars, but this is a result of new labor, or new production, and not part of the original sequence. It leaves me again when I buy collars and ties for five dollars. But in *C–M–C* the sale must take place, I must get back the money I advanced.

Use-Value No Object in Transactions

The movement of commodities aims at consumption and uses money; the movement of money as capital form uses commodities

not for consumption but to acquire still more money. It exists for exchange value, not for use-value. There is no difference of quality involved. The fountain pen is unlike the shoes but all money is the same in quality. "Money has no smell," says the proverb. If there is no difference in quality, there can be only one motive, a difference in quantity. This difference, above the value originally advanced, and which is added to the original amount, whicb remains intact, is called *surplus-value*. Thus Money becomes Capital.

Motion of Capital Interminable

The commodity form, selling in order to buy, is limited by the consumption that satisfies very definite wants. But with buying in order to sell the motion is interminable. It can always be renewed so as to obtain a larger quantity of money. If it is withdrawn, it is a hoard, and as a hoard nothing will happen to it; it will be the same forever. The $200 I got for selling the silk I bought at $175 must be used again in the same way, or else it will never be more than $200. *As capital it can never stop,* for if it stops it is just a hoard, not capital at all.

Every circuit completed by capital, unlike those completed by consumption, must lead to a continuation by way of the new circuit, the *M* must buy *C* in order to be *M*. Neither use-values nor any given profit are the aims of capitalists. The capitalist is a rational miser, says Marx. They are both driven by greed, but the miser tries to gain his ends by a withdrawal from circulation, the capitalist by throwing his money constantly into circulation.

The capitalist changes his money from one use-value to another to get more money or, rather, he could do so. But the same use-value would serve just the same.

Capital Is Alternately Money and Commodity

Here we see the limitations of the definitions *capital is money,* or *capital is commodities.* The better formula (though inadequate and formal) would be that values take on the shape of money, then of commodities, then again of money; at the same time this value changes in magnitude, and with this increased magnitude, composed of value and surplus value, it can add automatically to itself, *ad in-*

finitum, as value. Somehow (that mystery is the key to all political economy), value "begets" more value, with longer-enduring loins than those with which the patriarchs begat the worthies of the Book of Genesis. It may not be a goose but it lays golden eggs.

The form under which value appears (as the Devil in the shape of a black cat) is money, since in that shape it begins and ends. But money must also take the shape of commodities (say a broomstick) in order to add to value. Unlike the situation created by the hoarder, there is no exclusion between money and commodities. It does not matter to the capitalist what use or non-use any commodity may have. It is a means of converting value into value-plus-surplus-value in order that the combination may act again as value seeking surplus-value. It sells the Bible and the Koran, milk or opium, chewing gum or bread. They are means to surplus-value.

So far we have described merchant's capital. But the same is true of industrial capital. Mr. Ford's object in manufacturing automobiles is the same as Marshall Field's in selling dry goods. He sells the cars to make more money so he can make more cars, to make more money.

He does not want the cars, he has only three in his family (they are thin, too). They cannot use very many. He would not want anyone else to have the cars if he constantly lost money. He is glad to make so many cars, and glad everyone uses them, because he can make money so that he can make more cars to make more money, *so that he can never stop*. (This is outside the question of his social utility.)

Only little business men really retire. Why? Because they can "invest" their money, that is, turn value into surplus-value without buying any commodity whatever! This is *M–M′*, with no complicating factors. It is capital plus coupons or plus dividends—or at least that is what they hope for.

The Great Enigma of Capital and Surplus Value

The formula for money capital contradicts every previously described relation. It is the opposite of *C–M–C*, for it buys to sell. It makes the commodity the medium of circulation, instead of the money being the medium for commodities. The purchase is made

with no mind to the utility of any article. The money returns to the same hand instead of going from hand to hand.

The last term of the equation is the same in quality as the first. The quantity of value is not the same, whereas simple commodity equivalence is based on that. Can it be that a mere inversion—*M–C–M* instead of *C–M–C*, a mere change in the order of the transaction—can cause this absolute contradiction? What is more, for two of the three people in this transaction, the seller, or the commodity to the money-owner, and the buyer of goods from the money-acquirer, it is the same as any commodity transaction. They are the same as before; it is he who is different. They are producer and consumer, he is something else.

Nor does surplus-value possibly originate in this maneuver of the money-owner. For, in effect, the seller of the commodity and its buyer could have made the commodity exchange themselves. The thing could have been exchanged once, not twice, on a commodity equivalence basis. (We are speaking only of the process of circulation, not of labor, such as transporting merchandise or keeping it in stock ready to fit and serve.)

So we see that the mere inversion of the equation does not get us outside of the commodity exchange, and so the question is open: Is there in the process of circulation anything we have not noticed that can account for surplus value?

Let us make it simple. A fruit farmer and an auto mechanic exchange apples for gasoline. The apples, though, are worth two dollars and the gasoline two dollars. They agree to square accounts later on. The money is money of account but no real money is used. They keep books and cancel them out, as they are even amounts in this trade. As the mechanic would need to take too much trouble to grow apples, the farmer to pipe and store gas, both gain by the exchange in use-values, both get more of each than they would get without the exchange. They gain a greater quantity of use-values as well as different uses, but there is no gain in value, which is the same after the trade as before. Even if real money entered the transaction, making it into two trades, purchase and sale, separately, the effect would be the same. (We are not now discussing sharp trading, but normal exchange, where both goods exchange

at their values.) If "supply and demand" balance, then their effect on values is nil.

For the reason that use-values, are exchanged, economists on the whole have treated all trade, including *M–C–M*, as the same, thereby confusing use-values with values. Now if a sale creates surplus-value, why not also a purchase? Both are relations of money and goods.

Exchange Creates no Surplus-Value

Another thing: whereas in simple exchange unwanted use-value is exchanged for wanted use-value, in the money equation, where a surplus is sought, the seller is not getting rid of goods which are superfluous to him, for he has acquired these goods merely in order to turn them over. That is why the analogy between the exchange of useful articles with no eye to gain, and the exchange of goods beginning with purchase and ending with sale, is a confused identification. To paraphrase the witty remarks of Lasalle:

> The owner of the United Shoe Machinery Company first makes complex machines for his family use, the surplus machines he then proceeds to sell. The establishments that sell widows' clothes and mourning veils stock up in anticipation of a death in their family; what they cannot use, since auntie did not die, they then dispose of in the market. The Western Union Telegraph Company directors have wires sent them to amuse and instruct, and after they are fed up with this occupation they then exchange the surplus messages with the wolves of the Stock Exchange and the editors of newspapers, who compensate these directors with shares of stock they are bored with and surplus news items.

It does not take a Mark Twain touch to dispose of the idea that modern capitalists merely exchange use-values. But this idea takes on another form when it is argued that a commodity has different uses in the hands of a producer and in those of a consumer. But this is a change in use-value here given as availability, and the surplus-value is not found in an exchange of use-values, but in the increase of money over and above the circulation of use-values. If commodities are more cherished by the buyer than is money, money is more

cherished by the seller than are commodities. Nothing is added by this sleight-of-hand.

But even the exchange of non-equivalents can produce no surplus-value. This may seem nonsense, but it must be recalled that Marx does not treat of any individual deal, but with social phenomena, with the totality of transactions, in order to discover their social nature.

That one man gets the better of another in business is well known; that is their motive and their dream as they enter into a trade. But the question we have to answer is not how do Smith and Robinson get surplus-value, but how does the total number of exchanges made through money capital yield a surplus-value, or, more exactly, how is the whole mass of value increased by the mere process of purchase and sale?

If Smith sells the value of 100 for 110, then Brown, who bought badly, has paid 10 more than the value. He has 90 in place of 100. It has moved from one to the other but the social mass of value is still 100. If Smith sold badly, the same is true. The actors have changed but the quantity is the same. Even if it be assumed that sellers as a class have the advantage over buyers, then when each seller turns buyer in order to use his money once more, he loses on the next transaction as buyer what he made as seller. All rises of price cancel out each other as social totals; value is unaffected.

In a boom it seems otherwise. Cotton sells for eight cents, then ten, then twelve, then twenty. Everybody is exchanging at increasing prices. But they replace at the higher prices. As buyers and sellers they are equated. That is why, when the balloon bursts, they are all flat on their backs.[1]

Mark-ups could add to value only if there were a class that consumed without producing, that is, that received money for nothing. If, for example, one country subjugates another, as England does India, then if India sells to England to an advantage, she gets back part of the graft taken from her by Kiplingesque proconsuls of empire. But then, she gets back only part of the swag; she is

[1] For once a mixed metaphor describes what happens. I have seen arrogant speculators read confirmations of sale, see their loss, and sink unconscious into deep leather chairs. [*Author.*]

not richer. This relation is obviously not commercial but is introduced merely to show that even where one social group can sell above value it is only when the other has plundered it to begin with. In trade, in straight business, this is excluded.

A Class Cannot Cheat Itself

Surplus-value is not explained by prices or by one merchant or capitalist cheating another. The class cannot cheat itself.

It is an oft-repeated ethical prejudice that merchants are evil fellows who live by overcharging. But that is nonsense, for even if they raised the price to all consumers, thus raising the level of values, they would have to replace at prices the wholesaler was fully aware could be obtained.

The other idea, that there are overriding rich men who gain by force, can also be dismissed. In the sphere of circulation, at least, capitalists spend their last liver and lights and energy in radio broadcasts, newspaper advertisements, and numberless other forms of adventitious noise and color, peacefully to persuade mankind that Jimjam syrups are better than Hokum syrups. The voices of their announcers are dulcet, their rhetoric in advertisements is sweet and persuasive, their salesmen are eloquent and plausible. There is no question of force; quite the contrary.

Surplus-Value Cannot Arise in Circulation

Well then, no one gives surplus-value to the capitalists for love, no one because he is forced to. Cheating and clever trading are no explanation. Exchanges of use-values are excluded. They can make no money out of exchanging equivalents. There is no gain in social value by exchanging non-equivalents. Gain does not come out of a rise in prices as a totality, and no class can cheat another in circulation. It remains a complete mystery how the money in any country buys commodities for 100 and sells for 110, or even for 101. The secret must lie somewhere, because the world is full of rich people and a great many of them keep on getting richer. Before capitalism, it was easy to tell how people became rich. They owned the land and slugged their serfs, and took away what they required. Or, in slavery, they owned someone and gave him enough merely to sur-

vive. But here, they *sell.* They *exchange.* These are fair and above-board as social acts.

Since circulation of commodities produces no surplus-value, perhaps the merchant strips the producer or the usurer strips the manufacturer and merchant. But these historic explanations are realized in the sphere of circulation, but are not added values; they can exist only if there is a surplus to divide.

But how can surplus-value arise outside of circulation either? For, apart from circulation, a commodity owner simply sits down with his goods. They have value, that is, they contain labor. That labor value can be expressed in a nominal price, which really is money of account, that is, a bookkeeping entry. But although the producer has created value by his labor, he has not produced surplus-value. If value (labor-time) is 10, it is 10, not 11. There can be no value greater than itself. He can increase value only by putting in fresh labor, by making new goods. But unless the producer enters the sphere of circulation he cannot realize value.

Since surplus-value can originate neither in circulation nor apart from circulation, we must solve the apparently complete enigma of how the money capitalists buy commodities at their value, sell them at their value, and at the end withdraw more from this process of circulation than they put in at the beginning. Since no use-value or service explains it, because the embodiment of labor is value, not surplus-value, we must explain how the surplus-value arises both inside circulation and yet outside of it. We must step outside of money itself if we are to discover anything at all.

12

The Enigma of Surplus-Value Solved

The change in value must take place in the commodity exchanged, since it cannot take place in the money, which is at both ends of the equation. The question of how M increases to M' will not be answered by M or M'. It must, if there is a reply (and there must be one), lie in C, for it is by way of C that M is converted into M'. Since surplus-value cannot arise in circulation, that is, in exchange-value, it could only arise in use-value, and use-value is availed of only by *consumption*. Is there any commodity known that can satisfy this enigma? That can, by its very usefulness to the consumer of that commodity, become a source of value? For if there is such a commodity, then the surplus-value could *originate* outside of the circulation process, and yet become manifest in the circulation process. For use-values are acquired in the sphere of circulation. Put it this way: It is not in the sale of merchandise that surplus-value is to be sought. As for the money, by itself, as Ricardo says, it is productive of no profit. We are compelled to transfer our attention to the purchase of a commodity as the only alternative. If there is any commodity that can produce surplus-value by its very use, then the manner in which that commodity enters the sphere of circulation is in being *bought* and not in being *sold*.

Labor-Power

There is one such commodity, and that commodity is labor-power.

By labor-power, or the capacity for labor, Marx defines the aggregate of those mental and physical capabilities which every human being exercises in order to produce a use-value of any description.

How does Marx come to the surprising dogma that there is only one such commodity, and why among the universe of commodities does he select labor-power, and whoever said that labor-power is a commodity like any other? How can labor-power have the same

commodity character as other commodities which embody labor-time? Is there not a jugglery here? More than that, why must the answer be only in consumption of use-values? Is there, within the sphere of circulation, any answer, we have not explored? For it must be realized in the sphere of circulation, this subtle, enigmatic surplus-value.

Why, for example, does Marx insist upon simplifying the question to exchanges of equivalences or non-equivalences? Might not the answer rest in departures from equivalence, but finding their social level at equivalence? True, they appear to cancel out each other, and this seems common sense, but common sense is not rigorous proof.

These are legitimate questions and, as labor-power as the source of surplus-value is the important message of Marxism, it is worth going into to the last detail. Engels said that the two contributions of Marx to science, ultimately, got down to historical materialism and the theory of surplus-value.

First let us get rid of the last questions in the process of circulation. Marx states that his analysis of the enigma does not mean that goods, even on the average, sell for their value, or approximate to their values. He points out that even if we assume that price and value ought to coincide, the formation of surplus-value cannot be attributed to any deviation of one from the other. He has made two commodities equivalent in exchange merely to illustrate that if prices differ from values, they must finally be equated to values so that we may see the question stripped of complications and thus perceive that, leaving out all disturbing elements, the equation of exchange gives us no warrant for surplus-value.

True, this abstraction is made not merely in theory but in fact, for every merchant assumes that all fluctuations of prices are at about an average level to which in the long run they conform. Otherwise he could do no general predictable business, if every transaction appeared as a new level of prices, with no general reference by way of which it could be pretty much anticipated.

He would ask, in merchant language, how can capital yield a surplus if prices are regulated by the average price? Average prices do not directly coincide with value but, since surplus-value cannot

arise out of equivalence or non-equivalence, then average prices, whatever their deviations from value, could not explain surplus-value any more than social value could. It is still a matter of some kind of equivalence. So that all price deviations are ruled out in answering the enigma of surplus-value, whether the question is put as Marx put it, or as any businessman would put it in bis own trade language.

Surplus-Value Results from Consumption

First it must be proved that surplus-value, if it can be explained at all, must be explained by the consumption of a commodity. The demonstration is:

(*a*) Neither in exchange of equivalents or non-equivalents is there any increase in the value of money capital.

(*b*) Money, by itself, without the intervention of commodities, certainly stands still and remains a mere hoard.

(*c*) No commodity can produce surplus-value by itself, for the only way a producer can add to *value* is by putting more labor into new goods or more labor into the goods he has now produced, that is, improving them. But he can never add surplus-value to present production.

(*d*) But all value, including surplus-value, must be embodied labor, for labor-time is the ingredient of value.

(*e*) A man does not buy his own labor; his own labor is seen only as the expenditure of his energy as put into use-values.

(*f*) But since labor embodied in goods is the only source of value, and the only possible source from which a surplus-value can come, one must be able to *buy* some laboring power which can be consumed in industry, that is, in creating values, so that by this *consumption* of labor-power there is an actual creation of value over and above the labor put into the *production* of goods.

How Consumption of Labor-Power Produces Surplus-Value

The last point requires amplification, for (*a*) to (*e*) are easily followed. We have seen that labor itself can produce only value, not surplus-value. How can labor be a source of surplus-value if it cannot produce it? But if labor-power is sold by the worker to some-

one else, that buyer purchases it as he would purchase any other commodity. He hopes to consume the eight bours of labor-power sold to him, because he has bought it to use it, to exploit it, exactly as he exploits the power of a dynamo he has bought.

Compare labor-power with any other commodity (we assume for the moment that it is a commodity). A capitalist buys woolens for $100. He uses that wool, that is, he consumes it, in making suits. The value of the woolens does not advance beyond $100. It remains what it was, the labor-time incorporated into it. The labor that fashions the suits is additional labor, creator of new value by its efforts. So that by the purchase for consumption and use of any $100 worth of goods no surplus-value can possibly arise.

It is not, then, by the purchase of commodities with dead labor in them (past labor, that is) that surplus-value can be brought into being. The commodity purchased must be one whose living use by itself produces surplus-value. Since there is no meaning to use-value unless it is consumed, it follows that surplus-value can come only out of the consumption of use-values, exactly as value itself comes out of the production of labor. This use-value (the use-value consumed) must have a special property, it must be a commodity not embodying dead labor—that is, it cannot be an article, or goods.

We are forced back, accordingly, to the purchase and consumption of labor-power as the only possible source of surplus-value because it alone answers every condition of the enigma. But how are we to demonstrate that the consumption of labor-power creates a value over and above its own value, that is, a surplus-value? That it is the only alternative, merely indicates that the explanation *may* be in it, not that is in it.

Dead versus Living Labor-Power

The value of labor-power, as of any commodity, is the amount of labor-time required for its own cost or upkeep or, in more recondite speech, its reproduction. In this the value of labor-power does not differ from that of ice cream or galoshes.

But there is one difference, and that is all-important to the buyer of labor-power. The laborer does not sell commodities in which his past labor is embodied. He sells a commodity which exists only

in his living self. Now apart from humane or sentimental considerations, the economic difference is in the quantity of value. When a commodity other than labor power is bought, the quantity of value is the social labor-time already incorporated into it. The quantity consumed cannot exceed the quantity of value in the commodity. But labor-power has a value independent of its consumption. It does not incorporate a fixed, unchanging value, already congealed in the commodity. This special commodity can change its quantity of value by effort. Its quantity of value that can be consumed—its use-value, that is—is not fixed. As it is consumed, it can be augmented. The value of labor-power has nothing to do with the value which it can produce. Its own value (social time required for its reproduction), and the value it produces, are separate quantities, wholly different magnitudes. Here at last a commodity can be consumed which produces its own value and may produce other value besides. The riddle of surplus-value is solved.

Conditions of Labor-Power Sale

There are two conditions for the appearance in the market of this most peculiar commodity, labor-power. It must be sold by its owner, who is, in legal terms, free to sell it. He must not sell himself, as a bondman, serf, or slave, for then his labor-power is not a commodity. It could not then be sold over and over again in the market. His labor-power is an object of consumption, that is, of purchase, and it must circulate freely like all commodities. In the eyes of the law, the buyer of labor-power (the capitalist) and its seller (the worker) are free and equal parties to a contract. This is shown by the prohibition of peonage and life-contracts for labor in the United States, prohibition of immigration of contract (bound) labor, etc.

The second condition is that the owner of labor-power should own no other means of production. He must not himself be able to sell the products of his labor, he must sell *only* one commodity, labor-power. He has one possession, one object of sale. For if he had his own means of production, or had a host of commodities he could sell, he would not part with his labor-power as a commodity, he would not put himself in a position where there is a difference between the value that be produces and the value of the labor-power

he sells. Therefore two conditions must be fulfilled, he must be *legally free* and *effectively helpless.*

In order that anyone can manufacture commodities he must have the means of their production, that is, tools, raw materials, and also means of subsistence until his products are sold. He must consume before and while he produces. But products are sold after production.[1] He must be able to wait out both production and selling time. The worker, who sells labor-power, has nothing with which to realize his labor-power, though he is legally free to produce without a master, if he can.

The Essence of Capitalism

Despite the elaborate reasoning by which labor-power was discovered, alone, to be the source of surplus-value, it follows from the above that it can be only a historical situation in which masses of laborers and capitalists face each other in this relation. It is not in the nature of things. It is an event seen in a developed commodity society. Commodities already are made for the market, not for the use of the producer. Only in high capitalism, in developed machine industry, does the above relation of the labor-power sale by worker to capitalist become the rule, and latterly, universal. Unlike any other economic form, capitalism must have the sale and purchase of labor-power in the form described.

Other societies have money and commodity circulation, but only capitalism has this development of surplus-value. This is a special use of labor's weakness. In older society the laborer was unfortunate and miserably treated, but the manner in which he remained poor while the rich took the fruit of his toil was wholly different from the production of this social surplus-value through the consumption of labor-power, sold as a commodity by its owner.[2] For the development of capital, for its emergence as money, as a recipient of

[1] By sale we mean realized sale. Products are often sold for future delivery before production is completed, but the sale is completed only by a delivery.

[2] One can call the profit of a shoemaker, in the Middle Ages, out of his own apprentice, a surplus-value in a sense. But the social use of that labor was so different that the older word, "profit," is more fitting.

surplus-value, the purchase of labor-power is the essential. The system under which money freely buys *labor-power* is called CAPITALISM.

We said before that labor and the value of labor-power are differing qualities. How does the capitalist manage to separate the two so that there is a difference in his favor?

The Value of Labor-Power

Labor-power, in so far as it has value, has no more than the average labor of society incorporated into it. Since the individual who sells his labor-power must keep on living, to begin with, his labor-power must require that he be reproduced and maintained. He must obtain certain means of subsistence. The value of labor-power is the value of the means of subsistence necessary for the maintenance of the laborer. But labor-power also costs the worker energy, and this waste must be repaired.

This (maintenance) is a most indefinite quantity. In Cuba a laborer requires no heating, no expensive clothing to keep out the cold, nor does he need shovels full of calorie-producing foods to beat the Boreal blasts. In Chicago during the winter he needs three thousand calories a day, heat at sixty-eight degrees in his house, and a double-breasted coat and thick underwear. In the country workers need no carfare but in the city that is an item. In tropical countries, vacations can be shorter, because everyone has what the Northern worker must pay for, permanent sunshine and flowers. That, however, does not mean that the worker in hot countries is better off. Usually the contrary is true.

The means of subsistence that are required also have a traditional basis. Where workers participate in a tradition of freedom and opportunity, as in the United States, they will submit to much less privation than where the lord has kicked them in the face, just for the fun of it, as in the Poland of but yesterday. The value of labor-power has historical and moral bases that are not true, in that way, of any other commodity.

In any given country (or, rather, civilization) though, the amount required for *mere survival* is well known by experience. Even in rich America there are large sections of the population for whom this reproduction basis is almost at an animal level. If the

class of persons selling labor-power is to keep going, the laborer must have children. Capital is immortal, the laborer mortal. Money never dies, but men come and go. The remuneration of labor must also include the sustenance of the number of children required at least to maintain a good supply of workers. That means, at the least, the production of more than one fertile daughter who will grow to maturity to every woman of child-bearing age. In England today one hundred women of that age are producing only seventy-five daughters and the capitalists look with real anxiety to the future.

Skilled Labor-Power Value

Labor-power requires still further compensation. For much labor (though not for as many as in Marx's day), a special training is required. But nowadays, workers all must be able to obey much more complex instructions than in former ages. Reading and writing are almost indispensable. Truck drivers must sign receipts and account for inventories. The complicated systems of timing and measuring require a certain alertness. In the case of really skilled workers, the training takes many years and has to be compensated. Since the wants of the workers are paid for daily in the case of food, monthly for rent, quarterly for certain installment payments, etc., and their clothing is often renewed in part only twice a year (if that), the daily wages must take care of these expenditures on the formula

$$\frac{365\text{–A plus }52\text{–B plus }4\text{–C etc.}}{365}.$$

The quantity of labor, paid for each day's work that compensates these socially required expenditures, is the value of labor-power daily reproduced. If half a day's labor will suffice for this, and that is expressed in money as two dollars, then two dollars is the value of a day's labor-power. The worker offers his labor-power for its value, and sells it for that. The capitalist buys it at its value (on the average). But it is clear that this value is indeterminate. For the worker it is the cost of reproduction of his labor-power on a

traditional basis, and he interprets those needs liberally. For the capitalist, the nearer this interpretation comes to minimum survival, the cheaper the labor-power, the more nearly it seems to represent the value of labor-power. If labor-power is sold below its value (as today in Germany) it will leave the labor-power eventually very much impaired. It is sold below normal quality, in the long run.

Why Is Labor-Power Sold Only for Value?

Labor-power is sold for value, this value being based on the amount of labor-time to reproduce the goods necessary for its maintenance and reproduction at the social level prevailing. But it may be asked, why must labor sell its labor-power at its value? Why not above its value? Why is it so limited? Cannot the supply of labor become so scarce that its labor-power is compensated at more than its value? It is true that at certain boom times wages may rise temporarily, but the fundamental inequality of the situations, that the workers have no means of production and the capitalists all the means of production, determines the issue fundamentally.

When any other commodity is sold its use-value is immediately at the disposal of the purchaser. But labor-power is curious in this too. Its value is fixed before it goes into circulation. But its use-value is not available to the purchaser except subsequently. But labor-power is used by the purchaser for a week before it is paid for (if that is the arrangement). The use-value of the labor-power is thus advanced to the consumer, the capitalist, by the laborer until he is paid.

He gives credit to the capitalist. This may be laughed at as fiction, or at best nominal accountancy. But the number of firms that "go broke" owing wages show how real it is. Among the very poor, this delay causes them to eat inferior food because they are always short of even a few dollars. But in order to discover the pure surplus-value relation, this credit will, for the time being, be disregarded.[8]

[8] The capitalist, of course, reasons exactly contrary. His capital is a fund, out of which he pays wages before his products are sold. The Wages Fund theory was an expression of this idea. (Taussig, *The Wages Question,* New York, 1896.)

Contractual Appearance of Labor-Power Sale

The moneyed man buys everything at full value. He buys equipment and raw materials. But when he consumes labor-power he not only produces commodities (values) but surplus-value as well. The consumption of labor-power never appears in the market, but like any use-value it takes place outside the sphere of circulation. Marx now penetrates the disguises of "fairness" in this relation, to extract the secret of profit-making.

The superficial appearance is idyllic. Labor and capital are free agents. Both agree to a contract on their free will. The contract is an expression of their common will. They are equal, for each one owns an equivalent, money or labor-power. Property is respected because each uses his own, labor-power and capital. It is also motivated by self-interest and everyone knows that the greatest good of the greatest number is obtained by a prudent consideration for Number One. But the real fact is that the moneyed man has all the means of production and the laborer sells only his hide, and that the two classes are as completely unequal as they can be, despite the legal veneer.

The Theory of Exploitation

Money is transformed into Capital by its purchase for consumption of that extraordinary commodity, labor-power. Money thus becomes capital by absorbing into its value the life-force of the working class. This is the synthesis known as the Marxist class-conflict theory. It is the pillar of socialism. If it is true, the Marxians have scored heavily. If it is false and capital itself gives a real value for which it is compensated, then the present order has a valid *apologia,* and can allow of the progressive betterment of working conditions and still maintain its integrity. But if Marx is right, that the surplus-value (all that capital has) is due to the consumption of labor-power, for which it pays nothing, then Capital could not negate its own continuance by making concessions that would prevent its very existence. The "class conflict" is beyond discussion and enters the realm of force.

13

Absolute Surplus-Value

So far we have considered only the foundations of capitalism. The Marxian analysis now proceeds to the labor process, or working capitalism. Its logical foundations, value, exchange, money, capital, surplus-value, are now available, but the system itself, in motion, has not yet been studied. The Marxist study of labor antecedent to capitalism (of labor as an element in any production) is abridged here to cover only those aspects that are closely relevant to its behavior in capitalist production.

The purchaser of labor-power consumes it by putting the seller to work, who then produces use-values.

The capitalist buys, in the market, all the necessary factors of the labor process, its objective factors, the means of production, and its subjective factor, labor-power. He consumes labor-power by making it consume the means of production. (This consumption is distinguished by Marx from personal consumption.)

The labor process itself is not altered by the fact that the worker is employed by a capitalist. The capitalist subordinates labor to his own requirements, but at first he takes over the labor-power as it has been employed before his intervention. But two distinguishing features appear at once:

(*a*) The laborer works under the capitalist's control.
(*b*) The product is the property of the capitalist.

The capitalist sees that the worker is diligent and thorough, and that the means of production are used intelligently and no raw material is wasted. The second feature is self-evident: both the processes of production, the means of production and the labor-power, belong to the capitalist. The laborer has sold his power and consequently all that proceeds from it.

The capitalist now sets about producing use-values, but only because they are depositories of value, that is, because they command the products of the abstract labor of others. He aims, then, to produce commodities in order to realize not merely their value, for that would give him nothing for his pains, but surplus-value. As for labor, just as the commodities it makes are at one and the same time value and use-value, so the production process must be a labor process and also a mode of creating value.

Unique Features of Capitalist Production

Let us now examine the capitalist mode of production to see in what way it differs from any other form of production.[1]

Marx cites cotton-spinning, for at the time he wrote his *Capital* the cotton mills of Lancashire (England) were the largest capitalist enterprises, certainly the ones that employed the largest number of workers.

The production of 10 pounds of raw cotton requires 20 hours of work. As the production of gold called $2.00 would require the same amount of labor, we say that the value of 10 pounds of raw cotton is $2.00. The hourly value of that labor would be 10 cents. But this cotton has to be turned into yarn. The raw material has 20 hours in it. The spindle used to convert raw cotton into yarn is worn by this operation to the extent of 50 cents. The labor-power of the spinner (the worker's cost of living) is $1.50, and this labor-power is used for 6 hours. Then the 10 pounds of finished yarn will have cost in labor time, $2.00 for raw cotton, 50 cents loss due to use of the equipment, and $1.50 labor-power in spinning. The total is $4.00. The value per pound of yarn is 40 cents. That is a fair price for the yarn.

But where does the employer come in? The question here is not one of depreciation (that is, reserve for replacement) of his mill and machines. That is included. But if all he obtains is 40 cents a yard, he has covered raw materials, replacement of factory and tools, and purchase of labor-power. Where is his surplus? The answer

[1] Marx repeatedly states that the differences between slavery and wage-labor lie only in the *mode* by which part of the produce of the laborer is extracted from him.

it, nowhere. He must sell it for more than its *value* to "make money."

(In this case Marx shows that the labor-time incorporated into a commodity is not that of its last process but of all the times put into every necessity to production, such as raw material and that part of machinery and plant depreciated by each operation. The labor-process for him is one, but the specific kinds of labor incorporated into one value are cotton-growing, bricklaying (for the factory), spindle-making, spinning. But they all are abstracted by the single process into one shape, *value*.)

In the foregoing illustration the labor-time computed was just enough for the production of the cotton yarn under average social conditions. But the capitalist who has paid in full for this has no surplus. If I pay for the value of a house I get the house, but nothing beyond. When the capitalist pays full value for everything, he gets the yarn but nothing beyond. The explanation of the mystery of surplus-value must be that somewhere, somehow, he must get something he does not pay for. Not even the consumption of labor-power at its value will explain surplus-value.

Has the Capitalist Class an Alternative to Production?

What is the attitude of the capitalist when after all his investment and purchases and hiring he gets no more for the yarn than its value? He argues that he is injured because he went into all this only in order to obtain more money than he put in. He may argue, I will speculate in cotton and let the other fool trouble to produce it. But someone must produce it, the *class* of capitalists cannot speculate, since they must have the very commodities the future of whose prices they have to guess.

He can stop producing altogether. Then his machines and factories rot, his raw materials decay. He can sell to another fool. But, for a class, money is still the same in amount; does it matter which capitalist uses it? We are discussing the relation of the whole class of capitalists to the class of workers from whom they buy labor-power.

They may all try to stop producing? Then their hoards will dis-

appear in the consumption of use-values, and that world in which their money has some meaning will go to the devil. Their money will buy nothing, for nothing will be produced.

The reserve of the ages would not last more that a few weeks in consumables. Labor renews life. And, at best, the capitalist would be no better off than if he produced the yarn and recovered its value. For there he has made nothing but lost nothing also, and the circulation of goods, in which money must function, at least would exist.

Wages of Management Examined

Then as Marx says, since the capitalist must use the means of production be turns from threats of what he might do, to the claims of justice. He holds that no laborer can produce anything with his bare arms and it is he who gave him tools and raw materials, a chance to work. He ought to be paid for this social service.

But, as we have seen before, when he sells goods at their value, his raw materials and tools bave been incorporated into that quantity, and he is compensated.

From that point on, the capitalist changes bis reasoning. I have, he argues, been a workingman like any other. I have managed the works, watched the laborer, organized his production, bought the right raw materials, put up the factory in a good site, convenient to shipping etc., and for all this *labor*—inspired labor, but still labor—I am entitled to wages of superintendence, to wages of management, put it as you will.

My initiative and energy and foresight are forms of work, and they are the creative elements in value, and are even more fruitful in consequence that the brute mechanical labor of a man who does what he is told. Why your solicitude for this lower form of labor? Why not compensate the higher form? For this I claim a just reward over and above the price paid for factory, tools, raw materials, and the labor-power of common or even skilled workers.

Marx puts forcibly the case of the capitalist as it is given in a multitude of apologies for that class, and the reasoning of which appears irrefragible to the leaders of industry. Here the argument is on a different plane from the previous discussion in the section on the history of manufacture.

There Marx argued that the capitalist is a leader of industry because he is a capitalist and not a capitalist because he is a leader of industry. He means, not that some poor boy with a certain idea did not make a go of it in business by employing other people. Here as in everything Marx speaks socially, that is, he means that the *capitalists* are leaders of industry because they are capitalists. That is, under capitalism no one without the ownership of the means of production or the utilization of the labor-power of other men, can possibly make big money. (We are not speaking of financial jugglers, opera singers, charlatans, but of the industrial and commercial class who produce the wealth with which financiers juggle and which is handed over, once produced, to opera singers and clairvoyants.)

Since no one can make big money except by being a capitalist, naturally all the control and initiative of industry appears to originate in the capitalists. That it usually does not, even so, originate with them, but with a paid staff, is beside the theoretical question. If yellow hats are to be manufactured for ladies, there has to be some Schwartz & Co. to act as sponsors of yellow hats. If rubber bibs replace cloth bibs for babies, the battle for rubber bibs must be conducted by some Luke Jones & Co. against their deadly enemies, the cloth-bib house of Mark Smith & Co. In other words, these men are capitalists; there is no other system of production now existing; and so they are covered with the glory of producing use-values merely because that is the historic mode of production.

Economic Refutation of Wages of Management

That was Marx's *social* discussion. But the wages-of-management argument is *economic*. The capitalist asks for wages, nothing more. That is his economic (not ethical) justification of his need for surplus-value. Let us examine closely the actual production of surplus-value, to see what part he really plays, and what is more, knows that he plays.

For the question of surplus value will not be solved by saws, proverbs, or ethical arguments. It is an economic fact. The Scriptural idea, "It must be that the offense come, but woe to him by whom it cometh," is not the same as "It must be that production

takes place, so glory unto him by whom it occurreth." Marx shifts the question to an internal analysis of the process of production.

The labor-time incorporated into the goods consumed by the worker, required by him so he can produce with his labor power, has already been utilized. The food and beer that gives power to his muscles is already there when he takes his place at the loom. The past labor-time put into the worker gives him his exchange-value, that is, enables him to receive pay for his labor-power.

But the living use of his labor-power is not fixed, it is not past. It can be used—that is, its use-value availed of—not for the hours that are required to keep the laborer alive, but beyond. If the laborer reproduces his cost of living, and the continuation of his race, in four hours, that does not mean that he can say to the capitalist, "I sold you my labor-power for its value, the labor-time required tn reproduce it. Good-bye, I'm going home, I gave you that value in four hours."

The boss would (if he did not ring for the lunatic asylum ambulance) say to him, "Go home and don't come back. Collect your four hours' pay and consort with yourself. You're thrnugh."

This Charlie Chaplin conversation might take another turn if the capitalist were sympathetic. He would say, "But, my boy, that's not cricket. You sold me your laboring-power. Our contract called for an eight-hour day. It didn't say how many hnurs were required to reproduce your labor-power. It said eight hours, in time. Unless you give me eight hours nf your commodity, labor-power, which I honestly bought from you, you are a welcher."

To which the worker would reply, "But you should pay for value. My value is the labor-time required to produce my labor, or rather, to reproduce it. That takes four hours. I've given you your money's worth in four hours. Why don't you pay me for the next four?"

"Because I have paid you full value. Your value is four hours, you got that. I was honest. You sold me eight hours. I want that. I am honest."

On this high ethical plane, with both sides righteous, the economic fact crashes through. The value of labor-power and the value that labor-power creates are two different quantities. Use-value in production is not the question, since in order to create value,

work must be of some use. The capitalist bought the specific use-value which the commodity alone possesses of being a source not only of value but of more value than it has itself. That the time required to reproduce labor-power is less than the time bargained for in the sale is a piece of good luck for the capitalist, but since the worker received his value, it is on the face of it no injury to the worker. Marx does not, as it is often phrased, say that the worker is "robbed at the point of production." He says that there are differing magnitudes of value, one part of which is appropriated by the capitalist. This is not Tweedledum and Tweedledee. Later we shall see the consequences of Marx's reasoning for the labor movement.

How Gratis Labor-Time Figures as Surplus-Value

Former calculation, labor paid at its value (4 hours labor)		Second calculation, the capitalist extracts surplus value (8 hours)	
Quantity of cotton	10 lbs.		20 lbs.
A. Cost of cotton	$2.00	*A.*	$4.00
Hourly value if cotton took 20 hours to produce	.10	(40 hours)	.10
B. Cost of spindle, etc., used up	.50	*B.*	1.00
C. Cost of labor for making 10 yards yarn	1.50	*C.* Making 20 yards	1.50
Cost per hour (4 hours)	.37½	Cost per hour (8 hours)	.18¾
Total cost of cotton yarn (*A B C*)	4.00	Total cost of cotton yarn (*A B C*)	6.50
Cost per yard of yarn	.40	Cost per yard of yarn	.32½
Market price	.40	Market price	.40
Profit	None	Profit	.07½
		Profit on 20 yards	1.50

In this calculation 20 pounds are utilized instead of 10, because the labor-power is used for 8 hours instead of 4. The cotton cost per

pound is the same. The spindle use is doubled. But labor works for 4 hours more than its value, so that the 4 hours are given gratis to the capitalist. This cuts the cost per pound from 40 to 32½ cents and enables the employer to make a surplus of $1.50 on 20 pounds where he had been unable to make a penny on 10 pounds. This happy result came because he paid nothing for 4 hours' work.

Money has been converted into capital, the investment of $6.50 turned into $8.00, or into 20 yards at 40 cents. And yet equivalent has been exchanged for equivalent, everything paid for at its value. The capitalist did what every consumer does, he consumed use-value. He sold the yarn at 40 cents which, as we saw, was its value. The conversion of money into capital is explained and the enigma cleared.

Surplus-Value Related to Production and Circulation

The conversion into surplus value takes place in the sphere of circulation, for labor-power is a commodity bought in the market. It takes place outside the sphere of circulation because the production of surplus-value is confined to the sphere of production.

The labor-process creates surplus-value the moment it is prolonged beyond the point where it delivers a simple equivalent for the paid-up value of labor-power. By turning his money into commodities that serve as materials with which to make a new product, by incorporating living labor with inert substances, the capitalist converts value—that is, materialized labor, which is past labor, incorporated into labor-power—into a value that is pregnant with more value, that increases and multiplies.

The difference between ordinary production and capitalist production is patent. Production means that the labor-process is the adaptation of natural substances by labor so as to make a living. Commodity production is a combination of the natural process of labor with the production of value, which is manifested in exchange.

But capitalist production is something else. It is the superimposition on the labor-process of the production not only of a living, and of value, but of surplus-value, of the dedication of a part of the labor-process, unpaid, as a gift to another.

That can take place only when one class is in control and the

other subjugated (whatever the appearance), for no class voluntarily gives so great a continuous stream of presents to another. It is necessary, too, for the capitalist to supply the most adequate raw materials and the most effective machinery,[2] so as to reduce the time the worker requires to produce his own living and increase that he must give to the employer. Hence, according to Marx, this is the real spur of the capitalist, the initiative for which he demands "wages of management." He receives not "wages of management" but surplus hours of labor for this activity.

As for the difference between skilled and unskilled labor, Marx shows that *vis-à-vis* the employer, this difference is not significant. The previous analysis of skilled labor counted as compound unskilled labor is reaffirmed. That part of his time required by a skilled workman for the reproduction of his type of skill (training plus survival), is used by him to produce value, plus the hours for which he is not paid, that produce surplus-value.

Two Common Objections to Surplus-Value

Given the tight analysis of Marx all the way from value and exchange and money and capital and the increase of capital, and his masterly exposé of the enigma of surplus-value, it would seem as though his conclusion of the nature of surplus-value is unescapable. Nevertheless its conclusions have been hotly contested on two grounds.

The first objection is the one of competition. The analysis of Marx assumes that the capitalist can continue to produce the yarn for 32½ cents and sell it for 40 cents. How about competition? Doesn't the need to get sales mean that someone will bring the price to 37 cents and then someone else to 34 cents, thus leaving a skeletal rate of profit?

True, competition will never eliminate the rate of profit, so that Marx may be right in his assumption that any rate of surplus-value, or rather some rate, may be explained by his analysis. But is it rather not the least conceivable rate? Would not the appropriation of unpaid hours be rather small?

[2] That is why the capitalist system has been the most constructive in history.

This plausible denial of the quantitative importance of Marx's theory led him to another phase of his theory, the law of profits, in which his explanation of surplus-value is made a guide to the competitive need for the reduction of profit. Incidentally, as we shall soon see, Marx does *not* identify surplus-value and profit. They are distinct, as rates.

The second objection is superficial. If the laborer is paid for four hours and he works for eight, then he is fully paid for eight hours at half the rate. Where is the time taken from him? His hourly wages are lower, that is all. As this reasoning identifies exchange-value and price and wages with the value of labor-power, and holds that bookkeeping items are economic analyses, at this stage of Marxian analysis, the student should be able to handle it himself.

14

Constant and Variable Capital

Preserved and Created Value

The labor-process is not unified. Living labor adds fresh value, but in so doing, the values of the means of production which it uses are preserved, or, rather, are seen as parts of the total value of the finisbed product. For example, the cotton and the allocated use of tbe spindle reappear as parts of the final value of cotton yarn. Their value is preserved by their being transferred to the finished product.

But the laborer does not do two operations at once, one to add new value and the other to transfer old value (that in the cotton and spindle) into yarn. The very act of adding values preserves former values. But as these are distinct results in one operation, the twofold nature of these results must point to a twofold nature of labor, one to increase, the other to transfer, value.

In the labor-process, one use-value disappears so as to give rise to another. Raw cotton ceases to have use-value, as such, but reappears in a new use-value, yarn. Hence value is transferred by labor, by virtue of the particular, useful character of that labor, concrete labor. It is the specific quality of labor, then, that raises inert means of production from the dead and makes them part of the living labor-process.

For example, it is the specific task of spinning that enables the worker to convert cotton into yarn. But if the spinner were a carpenter he could still add value but it would be to another material, wood.

Hence the addition of value can be performed by labor in the abstract—either spinning or carpentering, in the examples above—but it is concrete labor that transfers the particular means of production into a new product. By the simple addition of quantity of labor,

value is increased; by the special quality of labor, the value of the means of production is conserved.

To illustrate: Suppose a spinner, owing to a new invention, can accomplish in six hours what formerly took him thirty-six. He can spin thirty-six pounds of cotton where he spun six pounds before. The value added to each pound is a sixth of the labor-time, a sixth of former value. But the value of the raw material preserved by this process is six times as much, although the new labor added is but a sixth of that of the former process, since the time of labor was cut five-sixths.

The longer the time required to spin cotton, the greater is the new value added. But, on the contrary, the less the time required to spin, the more value is preserved, since more cotton is brought into the labor-process in a given time. The two processes, creation of new value and preservation of old, though contained in the one operation, can be opposed.

The Relation of Means of Production to Value

But let us suppose that the spinner takes the same time but that cotton is produced (*a*) in a sixth the time, or (*b*) in six times the former time. In one hour in (*a*) he transfers six times the amount of value to the new product, or in (*b*) one-sixth the value, although the new value he adds is *constant*, because his time is constant.

Nor does this contradiction apply only to raw materials. If tools or machinery can be produced more cheaply, or dearly, their relationship to new value is the same, since their value too is preserved, that is, transferred proportionately by labor into new products.

But while raw materials lose their shape in entering into another product, machines and tools retain their shape and appear to be independent of the new product. But these must be studied on an actuarial basis. If a spindle lasts ten years, then its value enters into ten years of yarn production, since by that time it is fully consumed and it was being consumed steadily as a means of production of yarn. Its value is incorporated into the value of yarn by being transferred thereto by the spinning. It adds no value to the yarn. Labor adds value. It simply transfers dead value, in installments, by means of the agency of concrete labor.

Means of Production without Value

It does not follow that all means of production, though, are products of labor. Virgin forests, land, wind, waterfalls, metals in the earth, are examples of means of production into which no past labor has been embodied. They have no value to be transferred into the product. They are fashioned by labor, they are helps in creating *use-values,* but since they are not preserved as value, for they had no value, they are not incorporated into exchange value, but limited merely to use-value.

Special Forms of Transferred Value

Another exception: A machine wears out in one thousand days. It transfers a thousandth of its value each day into the product. But at the same time the whole machine is a totality, in its contribution to production, albeit with declining efficiency. The entire machine enters the labor-process constantly as a *use-value,* but as regards its own *value,* if every day $\frac{1}{1000}$ of it is used up, then its own value is transferred piecemeal to each day's value of the new product.

Still another curiosity: Sometimes the waste that is necessary in production requires that a part of raw materials must always be lost in the labor-process. Still it is the entire value of raw materials that is preserved in value, despite the fact that a section of it is physically not transformed into a new use-value, but lost.

Since means of production never can transfer any more labor than they contain, and all new value is added by living labor, it is useless to look for surplus-value (and its subdivisions, as we shall see later, rent, interest, or merchant profit) from the technical services of those means of production. Surplus-value can never come from dead value, only from the new activity of labor.

Still another peculiarity: Although the capacity of labor for preserving the value of means of production costs labor nothing, since it is part of one and the same operation as adding new value, yet to the capitalist it is a real advantage, as it preserves his existing capital.

So long as production is in full swing, the capitalist never notices this service of labor. But let trade decline and production cease,

and the depreciation of raw material and plant investment are the principal worries of the capitalist.

Constant and Variable Capital Separated

Now Marx makes his celebrated classification of constant and variable capital, a distinction since taken over by journalists as a phrase, without any idea of its special content, which is the distinction between preserved and new value.[1]

> That part of capital consisting of means of production, raw material, and instruments of labor that does not, in the production process, undergo any quantitative change in value, is CONSTANT CAPITAL.
>
> That part of capital represented by labor-power, which in production undergoes an alteration in value, reproducing its own value and a surplus-value and being transformed from a constant to a variable quantity, is VARIABLE CAPITAL.

It is the same as the difference between objective and subjective factors of production.

Constant Capital Value Unchanged in Production Process

This does not mean that constant capital cannot itself change in value, but that in the production process it cannot. If cotton, for example, becomes six times as cheap as the cotton used in the production of yarn, then the value of this part of the constant capital is reduced. But in the spinning process, in manufacture, it never changes its value from what that value was when it entered the process.

The same is true of machinery. A new invention may scrap old machinery, but here too the change in the value of the machinery is outside of and prior to the process of production.

As to the proportions between constant and variable capital, that would not affect the essential difference. If a machine were invented to produce yarn ten times as speedily, with the same labor, it would follow that the alteration in value by the intervention of

[1] Its transformation in the sententious bulletins of the Cleveland Trust Company was quite piquant but not illuminating.

labor would be reduced to a tenth, while the constant capital was greater by reason of the increased raw materials, etc., to be treated. But though the variable capital, labor-power, falls to a small proportion the economic difference is still that between constant capital and variable capital, the additions to value made by variable capital simply being less important.

15

The Rate of Surplus-Value

We now come to the practical question of capitalist production. Up to the present Marx has given us the anatomy of surplus-value. But we have no idea of how much surplus-value capital can obtain. Can it make labor work gratis for two hours? Four hours? Or very intensely? Are there laws that govern these fluctuations? For, even if we know the cause of surplus-value, but not its quantity nor its changes, we know little that will assist us in getting to Marx's goal, to depict the laws of motion of the capitalist system.

Marx uses three symbols, for convenience in restatement:

C—constant capital
V—variable capital
S—surplus value

Let a capital be composed of \$5,000 (\$4,100 *C*, \$900 *V*), and let the capital be increased by \$900 *S*. The capital after the process of production is of course *V* plus *C* plus *S*, or \$5,900.

But of course, the figure of \$4,100 for constant capital is itself composed of several constituents. Let us say \$3,130 for raw materials, \$430 for auxiliary materials, and \$540 for wear and tear of machinery and depreciation of the plant. The total constant capital, composed of these ingredients, is \$4,100.

Of course, the new value added is \$900 *V* and \$900 *S*, or \$1,800. The value of the product that is added to the constant capital is \$1,800. The magnitude of *C* is therefore of no consequence whatever to the process of creating new value, since it remains constant irrespective of the products added by labor.

This is not seen because the increase of capital from \$5,000 to \$5,900 seems to be an augmentation of constant capital as well as variable. Also the variable capital of \$900 appears to be a fixed figure like constant capital, but its place is taken in the production

process by living capital, which thus makes it function as a variable. Thus *V* reproduces itself plus its increment, *S*.

The Position of Constant Capital

Here an objection must be raised. If the constant capital has no influence on the magnitude of surplus-value, can this be carried to an absurdity? For example, is the constant capital of a million dollars invested in an enterprise less likely or more likely to employ a thousand workers than a thousand dollars? But this is not Marx's distinction. He means that *given* a constant capital it will have no relation to the surplus-value, since that surplus-value can only be realized by labor, which to begin with produces all value, surplus included. It is not a question of the mass of surplus-value, since clearly a man employing ten workers in a small plant will not have as much occasion to employ workers as the General Motors Company. But the mass of surplus-value is one thing, the rate is another. The capital of General Motors, therefore (the constant capital, that is), has no relation to the rate of surplus-value in its operations, since this rate is a function of its variable capital and of that alone.

Constant capital is the *condition* of the use of variable capital.[1] It supplies it with use-values for the labor-process. But it is not the *source* of the increase in value, for that, as we have seen, is produced only by labor, that is, variable capital. Constant capital was excluded previously by the enigma of surplus-value. It could not augment its quantity of value and capital was thus forced to consume a use-value, labor, with the unique property of producing a value greater than itself.

Rate of Surplus-Value to Variable Capital Only

That is not to say that the ratio of surplus-value to the entire capital advanced is not a source of great interest to the economist. That ratio is the *rate of profit,* but what we must first examine is how there is a source of profit to begin with, and that can come only from surplus-value. Certainly it is out of surplus-value that

[1] Or we can use a figure of speech and say constant capital determines how much variable capital can be *absorbed*. It is a favorite image of Kautsky.

the capitalist is enabled to expand his enterprise and so add to constant capital, but there constant capital is a consequence of surplus-value and not a cause.

Since the constant capital is equated to zero, we have narrowed our equation to *V* plus *S*. The new value produced was $900 *V* and $900 *S*, or $1,800 (*V* plus *S*). The ratio of surplus-value to variable capital is $900 to $900, or 1 to 1, or 100 per cent. That is the rate of surplus-value:

The rate of surplus-value is the ratio of surplus-value to variable capital only.

Profit Different from Surplus-Value

This is distinct from the rate of profit. The surplus-value rate is 100 per cent but the ratio of surplus-value to total capital invested (rate of profit) is $900 on $5,000, or merely 18 per cent. There are significant consequences of these differences in ratios for, as we shall see later, the increase in constant capital leads to a terrific decline in the rate of profit, or, to put it much more carefully, a tendential fall in the rate of profit.

But this has nothing to do with the rate of surplus-value. If a firm has a constant capital of a million in factories and materials and pays out $500,000 in wages the *C* is twice that of the *V*. Let it increase its *C* to $2,000,000 and by reason of installing this expensive machinery cut its wages bill to $400,000. The profit before was $200,000, which is 40 per cent of the variable capital of $500,000 but only 13⅓ per cent on the total capital of $1,500,000. But on the new capital, the profits rise $300,000. The surplus-value is $300,000, therefore on the new wages bill of $400,000 the rate of surplus-value has risen from 40 to 75 per cent. But the profit of $300,000 on the new total capital of $2,400,000 is just 12½ per cent or a *rate* a trifle less.

Mass of Profits May Be the Contrary of the Surplus-Value Rate

The capitalist added to constant capital so as to raise his *mass of profits*, to "make more money," by increasing the *rate of surplus-value*, even though he lowered the *rate of profit*. And since the mass of profit can be increased, in any circumstance, only by an increased exploitation, that is, by an increase in the ratio of surplus-

value obtained to wages paid, the lower rate of profit can be tolerated, for the firm is, in absolute amount, making more money. The fierce competition for increasing the rate of surplus-value may therefore easily carry as its corollary so high an investment in constant capital as to threaten the rate of profit and give it a tendency to fall. Why this tendency is counteracted and how it is resisted will be a later subject of discussion.

The intensity of exploitation of labor is determined by the rate of surplus-value and not by the rate of profit.

This discussion of the rate of surplus-value to variable capital leads to a concrete determination of what is the socially necessary labor-time required by the laborer for his reproduction of labor-power so that one factor in the ratio can be determined exactly. Until now the labor-time required for labor itself has been treated only approximately. How do we ascertain how many hours he works to reproduce his labor-power and how many for the capitalist? These are the number of hours he would require for himself, if he were not employed but were self-employed. When the expression "necessary labor-time" is used hereafter it will refer to time required by labor-power for its reproduction and no longer be applied to the time labor embodies in commodities. This is a derived meaning, but it makes exposition easier.

Surplus-Value Rate the Exploitation Rate

The exploitation of labor by capital, that is, the determination of a certain number of hours for the worker and the rest gratis for capital, is a mere taking-over of more primitive modes of exploitation. The reason that capital found it easy to obtain surplus-value was that the propertyless serf was at hand, he who had worked all day in the fields and at the end of it been given poor fare and a damp hut, while the bailiff of the lord took over the rest.

The reason why the rate of surplus-value is the rate of exploitation is that it measures the ratio of hours worked for pay and hours worked for nothing. For the worker, if he works 6 for himself and 2 for the employer, the rate of surplus-value is 2 to 6, or 33⅓ per cent. If it is 4 and 4, it is 100 per cent. The rate of profit does not concern him.

So that, in the first example, the $1,800 that was produced, of which $900 was paid in wages—that is, acted as variable capital—was equal to the $900 surplus-value, or an even ratio, which meant that four hours were given to the employer and four to the worker (assuming an eight-hour day).

The surplus-value produced by labor is, as we shall see, divided among the capitalists in the shape of merchant profits, landlord's remuneration, usurer's or banker's pay. This too is a serious consideration for the employer, but again is largely immaterial to the worker. For him there is only one question: How many hours of his labor make up his present for all of them to divide?

The difference between the rate of surplus-value (the concern of the worker), and the rate of profit (the concern of the capitalist), is the real source of the discrepant statistics bandied by experts.

> Note: All the figures used here are oversimplified. To begin with, they equate price and value. In the section devoted to the rate of profit, these clear theoretical illustrations will be made to conform to complex reality.

Before proceeding to a study of what is a necessary working day, it is best to go over the remaining questions or difficulties of the theories of surplus-value, since this is the core of Marxist economic theory.

The quantity added by labor to value is what it is, irrespective of constant capital. If the capital be a thousand or a million, the amount added by each worker is so much. It is four hours per man, say, for the surplus-value. That rules for a sweatshop or for General Motors.

Per laborer employed, then, the rate of surplus-value is indifferent to constant capital.

Is Profit Made in the Last Hour?

But as to the question of how many hours the laborer should work at all, the issue is at the heart of applied political economy. The capitalists of England used to argue that since the rate of profit (not of surplus-value) was 10 per cent, say, and the worker was employed for ten hours, the profit was in the last hour and a nine-hour day would end profit.

One might ask, as an absurdity if, during bad business, the rate of profit fell below 4 per cent, the worker should acquire an ectoplasm, double, or wraith, to work alongside him in the flesh, since one man can work no more than twenty-four hours a day, and since the profit is in the last 4 per cent, a reduction to a twenty-four hour day would spell ruin to the employer. Nor could this absurdity be reversed, for the worker has a minimum, he must reproduce his own labor.

NOTE: A good method for bringing the entire issue of the working day to a head is the method of proportioning production time.

We will take 100 yards of cotton yarn. They are worth $10. The cotton used in spinning this yarn was worth $7. The depreciation of the factory, wear and tear of the machinery, etc., is, say, $1 for this amount of production (that is, equated to it in proportion). The variable capital is $1, that is, the amount paid out in wages, and the surplus-value is $1. The rate of surplus-value is 100 per cent, *S* over *V*. Now the first $8 represented what Marx called the preservation of value which is the extension of use-value or, more correctly, the transfer of one use-value into another. That is, the $8 represents conservation of constant capital. It does not represent any increase in value. That comes from the $2.

If the proportions are expressed as yards of yarn, then the profit is represented by the production of 10 yards, and the wages and profits together by 20 yards. The constant capital is preserved in 80 yards.

The capitalist argues: You see, here was a 10-hour day. The surplus-value is 10 yards produced in the last hour, or in only one hour, for that is the proportion of time it takes to make my profit to the total production of yarn. A 9-hour day and I am out of business. Such a demand from trades unions is destructive.

Labor replies: You are confusing value and use-value. That proportion of time, 8 hours to reproduce 80 yards, transferred use-value but had nothing to do with value. Your profits come out of *new value,* and that alone is the issue. We produced that in 10 hours, 5 of which were given to you. Can you ask us to be charged as spinners for the production of

factory and machinery, in which labor is *already* embodied? We transfer that constant capital into cotton yarn, but that transfer takes place all the time that we are creating new value in addition!

The last 20 yards of cotton were created in the last 2 hours, proportionately. But it is their use-value that has been created, and $\frac{1}{8}$ of their value, that is, the proportion of the variable capital and surplus value to the constant, is their new value as well. But if we create surplus-value in 1 hour, then in 10 hours we ought to create a value equal to 100 hours a day. Let us reduce the day to 9 hours and see what happens to the actual calculation.

Marx points out that this bookkeeping method of calculation of the employers is entirely legitimate, for their purposes. But does the spinner of yarn actually produce the raw cotton, spindles, machinery, factory, over and over again as well as spin the cotton into yarn?

We assume that in a 9-hour day labor would produce a tenth less than in a 10-hour day, although experience is not so pessimistic, for reasons to be found in the study of relative surplus-value later on. But granted the diminution, what happens?

Ninety yards are spun in 9 hours in place of 100 in 10. The product is worth \$9.00. The cost of the raw cotton is not \$7.00 but 10 per cent less, \$6.30. The wear and tear is not \$1.00, but 90 cents. Total constant capital then is \$6.30 + .90 = \$7.20. On an hourly basis, wages are now 90 cents instead of \$1.00, thus variable capital = 90 cents. Total capital involved, $C - V =$ \$8.10, price of yarn at 10 cents per yard, for 90 yards, \$9.00. Surplus-value, 90 cents. Ratio of surplus-value to variable capital, unchanged, at 100 per cent. Mass of surplus-value reduced not by a wipe-out but merely from \$1.00 to 90 cents. Assume that labor wins a great victory and that wages are unchanged but hours diminished. Then variable capital is \$1.00, surplus-value down to 80 cents, or a mere 80 per cent in place of 100 per cent. Even the rate of profit, that is, rate of surplus-value to all capital, both constant and variable, is reduced to 80 cents on \$8.10, or slightly under 10 per cent. What becomes of the contention that the profit is in the last hour? It is clear that the profit

arises throughout the production process. The worker does not lose a moment of his day in replacing constant capital. The other way around: it is because the worker spins for 10 hours that the values of cotton and machinery are transformed into the yarn, and this is owing to the quality (use-value) of the labor and not its quantity. The figures above, when checked as to their implications, fortify this subtle and abstract reasoning.

16

The Working Day

The limits of the working day are very elastic. The capitalist buys labor-power for one working day. But how much is that indeterminate time to be computed as? Six, ten, sixteen hours? There are two practical limits. The worker cannot go on twenty-four hours a day. Even if he slept as little as the legendary Napoleon (four hours) he needs to eat, rest, etc. The maximum must allow for this need to recuperate so that he can work the next day.

Apart from his non-eating soul, man is a heat-machine like any other, for heat is a mode of motion, and that is what work is. As such his maximum expenditure of energy in a given day can be pretty well known.

Even a horse must stop. It is true that the amount of food with which this heat-machine is stocked is a variable. Then, too, the worker is a man, and in certain societies has human demands. He wants to have some fun, or, if he is a killjoy, he wishes to mourn his lot with fellow pessimists. He may even want to read. Some of the young workers like to be athletes or to dance. The physical and social limits are thus extremely indeterminate.

But the capitalist, as a businessman (whatever his personal magnanimity) is bound to seek to extend that time as far as the energy of the worker will produce an ascending amount of commodities. For the more time, the more value produced; the more value produced, the greater the ratio of surplus-value to the needs of the worker (which he replaces in short time).

If it is argued that by driving the worker too hard the capitalist impairs his purchase of labor-power the reply is that that may be true for any given worker, as a seller of labor-power, but the question here is social, the mass of sellers of labor-power against the mass of capitalists.

If the destruction of health and life of the workers is soon compensated by a new crop of sellers of labor-power, then the capitalist is losing profits by taking humanity into consideration.

It is only if the overdriving of labor and the extreme lengthening of the working day go beyond production limits, and if labor is not replaceable to advantage in the production process, that the capitalist must necessarily calculate humanely.

Simon Legree in *Uncle Tom's Cabin* laments, "Lor', I used to tend my niggers, fix 'em up when they was sick. But now I get what I can. Good niggers last five or six years, trashy ones gets used up in two or three." That was because the slave trade and the breeders in the border states produced a constant supply so that Legree lost the interest in humanity that he had when that supply was not so abundant.

Capital is dead labor. It is the conversion of former effort into commodities. Marx says that it acts like a vampire, it sucks sustenance for its dead being out of living labor.[1]

There is no limit to the thirst for living blood by the dead. It is a horrible image, but it is graphic. That is Marx's analysis in literary guise. The worker, on his part, seeks to reduce the working day to the minimum required to keep him going in good health, with the promise of longevity and allowing for the nourishment of healthy children. Any expenditure of labor-power that injures these needs, he resists. He knows that in one year's expenditure of labor-power he may give up four potential years. He must save his energy just as a capitalist saves money. Accordingly he says to the capitalist, "I have sold you my labor-power, which you have bought the use of but not the abuse of. Pay me for my time but do not rob my future time. Value for value, that is all."

Descartes once said that one man must be as good as another, for each thinks he is as good as the next and there is only God to decide between them! Here too economic science is of no use to

[1] The superstition of the vampire is common in Hungary. The belief is that corpses haunt the world, take on the shape of bats, but can be seen also in their former human shape. They cast no shadow nor are reflected in a mirror, but they need the blood of living people so as to keep going, and therefore suck it from them.

us. Each side fights for its interests, and although there are extreme limits, perhaps sixteen hours a day on one side and four hours on the other, the difference is so large that it might as well be infinite. Force alone decides. "A fair day's work for a fair day's pay" is hollow rhetoric. Each side's idea of fairness is determined by class interests and there is no common denominator in political economy.

Since the working day can never go to merely the time required for the worker to reproduce his labor-power, for then capitalist production stops, nor for so long as to destroy labor, the normal working day with which we have dealt is a historic category. In those terms, Marx reviews the "greed for surplus labor."

The Evolution of Surplus-Value

Capital did not invent surplus labor. Wherever one class has a monopoly of the means of production the other, free or not free, must give up a part of its time to the sustaining of the masters. But where use-value and not exchange-value is the object of production, there is no need to drive labor beyond the particular wants of the masters. It was as soon as gold and silver became money, in Greece and Rome, that slavery took on its terrible shape. The slave was worked to death.

As soon as serfs or corvée workers (that is, persons who have to give a definite part of their time to working for a noble or for the state without recompense) produce goods for an international market, they too are given the least amount required to survive and worked to an early grave.

The slaves in the Southern states were treated with something like patriarchal kindness and they were so inefficient that Washington and Jefferson, themselves slaveholders, looked with hope to the speedy end of a wasteful system.

But no sooner was cotton a great cash export crop than the Legrees replaced the St. Clairs, and slave exploitation became increasingly vicious, and the softened domestic slave economy was confined to scattered gentry like Robert E. Lee.

It was no longer a question of getting use-values from the slave but of surplus-labor itself.

Corvée labor is the best primitive type for comparison with

capitalist labor. The laws of Romania, for example, fixed the division of the labor-time between what the peasant could have for his own livelihood and what surplus time he must give for nothing to the noble.

Statute Limitations of the Working Day

The English Factory Acts, dating from the ten-hour law of 1850, show negatively that the greed for surplus-labor is so great that unless the workers are protected by statute they will be worked to death. For this law was passed only when it was obvious that the English race was actually collapsing in physique.

Despite this Act, won by the English labor movement (the first aggressive labor movement in history),[2] the mill-owners consistently evaded it and snatched ten minutes here and quarter-hours there on pretexts, or in the hope of influencing factory inspectors. This shows the vital importance of labor-time to capitalists.

But the protected industries were very few. It was the waste of life and the driving to illness and death of men, even in healthy occupations, like blacksmithing, which showed what capital must do when it is unrestricted. The contrast was complete, for the ten-hour industries and the "free" industries existed side by side. Day and night shifts, the relay system, etc., extracted incredible amounts of surplus-labor from the workers.

If labor, asks Marx, was conceived of as anything else than a commodity, as labor-power, how could this history be explained? Nor can the capitalist be kind. For whatever he may feel (and thousands of such men are humane), the competition of less scrupulous capitalists makes it impossible for him to survive except at the level of overtime brought about by the pace-setters, the sharpest, exploiting employers.

He must follow the immanent laws of capitalism. As a class, he (the employer) cannot negate them. If it be objected that some employers are better than others, Marx replies that (1) they are a minority, and that (2) frequently they operate in trades where the

[2] It is necessary to recall the sturdy example of British labor to its brethren everywhere at a time when it is the fashion to tar all Englishmen with the reactionary brush.

threat of still further concessions that would be wrung by the workers prompts this forced generosity.

Marx's chamber of horrors, bristling with hideous examples, apart from his economic theories, was the inspiration of the restriction-of-hours acts throughout the world and especially in America, where German immigrant labor, highly skilled and educated, made his dread bundles of fact part and parcel of the trades-union baggage. Today the memory of that epoch in industrial history is so dreadful that no one any longer contests the picture Marx drew so vividly. It is his humane service, and is respected by those who dissent wholly from his political economy.

He reviewed historically the constant efforts made by parliaments from the fourteenth century on to compel the workers to toil longer hours. Wages were fixed at a maximum, but the time worked could not be less than a certain number of hours.

But not until free labor was driven off the land, and capitalism could employ the helpless, was this compulsion to work longer hours made a social fact. It was abused so terribly and so fast that within a few decades the current set in the other direction, and parliamentary and legislative action has since aimed at restricting maximum hours instead of imposing a minimum labor-time.

Within a short time the restrictions on child labor and regulation of female labor and humaner hours regulations saved the English race and so saved English industry which, despite the "profit is in the last hour" economists, entered a period of a fifty-year boom.[3]

Example preaches louder than arguments and soon the British hours-restriction acts were enacted, in even more liberal form, in American states. We shall see in the study of imperialism that the gain of British labor was partly at the expense of native colonial labor. But even so it measured a large social advance.

The Reality behind Free Labor

Marx comments on the question of the working day, that the laborer comes out of the process of production a different man

[3] All of them, to their honor, later admitted their error. "The people were right and we were wrong."

than he entered it. In the market he theoretically is the free owner of a commodity, labor-power, which he sells to the capitalist, without constraint. Once sold, the time, for which he is free to sell his labor-power, is the time for which he is forced to sell it. He defends himself not as a contractor but as a class, and uses the statute books and collective bargaining as his historic weapons. This is the reality behind free labor.

17

Rate and Mass of Surplus-Value

The mass of surplus-value is always given in the rate. That is, if variable capital is known—say if it is $1,000—it is multiplied by the rate of surplus-value, and the result is the mass of quantity of surplus-value. If the daily value of the labor-power is $1, and the rate of surplus-value is 100 per cent, then the mass of the variable capital is at the rate of 1 to 1 with surplus-value, and is therefore $1 per worker and the surplus-value must be $1,000 for the thousand workers employed daily. So far, it is a redundant arithmetical expression. But since the mass of surplus-value is produced by many laborers, it is helpful to put it comprehensively:

The mass of surplus-value is equal to the variable capital advanced, multiplied by the rate of surplus-value, and determined by the compound ratio of labor-powers exploited simultaneously by the one capital and the degree of exploitation of each individual labor-power.

Since the ratio of variable capital to surplus-value is the factor for calculating mass of surplus-value, it follows that even with decreasing variable capital, the mass of surplus-value can increase if the working day is made longer. For example, a capitalist employs 100 workers at $20 a week each, or $2,000 variable capital is paid out each Saturday.

They work 4 hours a day for themselves and 6 hours for him. Then the rate of surplus-value is 6 to 4, or $1,500 to $1,000, and that $1,500 is the mass of surplus-value. But he presses them to work 12 hours a day. They still work 4 for themselves and 8 for him. The rate of surplus-value is 8 to 4, or $2,000 to $1,000, and so his surplus-value has risen by $500 although variable capital is unchanged.

But suppose that the workers win a strike. They work only 8 hours, 4 for themselves and 4 for him. The ratio is 4 to 4 or

$1,000 surplus-value to $1,000 variable. In all three cases the variable capital has remained the same, but the mass of surplus-value has altered. To obtain the same mass of surplus labor on the 8-hour basis as on the 10, the capitalist must employ more men, that is, he must increase the variable capital, or pay out a greater total of wages. He certainly would rather increase the hours of labor than employ more men. It is a rate of surplus-value he seeks to augment instead of the variable capital he must use.

Since variable capital can even be diminished, if the rate of surplus-value is increased, and so the mass of surplus-value increased, it follows that the capitalist both seeks to reduce the number of workers by either increasing their time worked or, as we shall see in the next chapter, working them more intensively, in any given time.

But the increase in the rate of surplus-value has one limit: twenty-four hours a day. Since working time cannot be extended beyond a given point, variable capital can be replaced by increased labor-time only within these limits. As the laborer must use a portion of his labor-power to reproduce it, the range of surplus-value has both a lower and a higher limit.

So that no matter how much a capitalist seeks to increase the rate of surplus-value to compensate him for the shortage of variable capital, after a given point he can make no progress. For instance, a variable capital of $5,000 employs 100 workers for 10 hours. They work 6 hours for the employer. The surplus-value is 6 to 4, or $7,500. A variable capital of $2,000 employs, say, 40 workers for 14 hours even. The ratio of surplus-value is 10 to 4, or $5,000 to $2,000.

But it can never rise as high as the mass of surplus-value available to the capitalist with $5,000, exploit his workers as the smaller capitalist may. Since capital seeks to reduce its variable capital, and also tries to reduce the number of workers employed, and at the same time seeks to increase the mass of surplus-value, this time limit forces it to some other solution, as we shall see later, for its contradictory desires.

With a given rate of surplus-value and a given value of labor-time, the mass of surplus-value must increase or decrease in proportion to the variable capital advanced. If the rate is 100 per cent, and average labor produces 1,000 units of value, with twice the

variable capital, it will produce 2,000 units, although no other factor is changed.

The capitalist divides his capital into two sections, (1) constant capital, the means of production, and (2) the purchase of living labor-power, the variable capital. This proportion of constant to variable capital varies in different industries and within the same industry; it varies with either technical changes or changes in the organization of production. But since constant capital creates no new value, it does not matter whether its proportion to variable is 2 to 1 or 10 to 1 or 100 to 1; it is with the variable capital used that the surplus-value is obtained, although it is true that with $100,000 one can buy more machinery (constant capital) to employ workers than with $10,000. The masses of value and surplus-value, despite this, vary directly as the *amounts* of the variable section of this capital, that is, the section which is transformed into living labor-power.

The Ratio of Constant to Variable Capital

But, everyone will object, this is against common sense. Why, look at the steel business which requires immense investments, and compare it with a small baker's shop which has no real investment. The steel mill will have a million dollars in plant investment and spend only $100,000 in wages and the baker have $1,000 in investment and spend $2,000 in wages. If there were a greater surplus-value in industries with a large proportion of variable capital, who would sink his money into those that require a high proportion of constant capital? And they are right. This is the foundation of Marx's theory of average rates of profit, but it must await the completion of surplus-value theory, for it is derived from it.

The Social Calculation of Surplus-Value

In the United States we have forty million workers and they average eight hours each; the total daily working time is 320 million hours. Within the limit of this number of hours, the mass of surplus-value can be raised only by increasing the number of workers. The growth of population is the mathematical limit to the production of surplus-value by the total social capital. If, on the other hand, the population is static, the mathematical limit is given by the great-

est possible extension of the working day. But—and this is new—we shall soon see that these limits exist only for the *absolute form of surplus-value* we have dealt with up to the present.

Minimum Capital Required for Surplus-Value

For any sum of money to become capital it must at least be used to employ one labor-power, day in and day out, to produce surplus-value. A great deal of money in the hands of possessors is too small to perform even this minimum task. If the worker is to work eight hours for himself and four for the moneyed man, the little employer would have to employ more than one man to live on the difference they produce, for four hours in the case of one person is not enough surplus to sustain a boss. In that case, all he would seek to exploit two workers for would be merely his own living requirements.

But if he wants to live twice as well as a worker, he must employ four workers, and if he wants further to turn half their surplus-value into additional capital he must hire eight workers. That is, since each of his eight workers requires eight hours to live, that is sixty-four hours, and he lives twice as well as any of them, that is, on sixteen hours' worth of means of subsistence, to use half the surplus-value as capital he must use the produce of sixteen hours.

Anyone who cannot live better than his workers and turn part of their surplus into new capital is not really a large capitalist but is that hybrid called a small master or (in America) a "little businessman." It seems, then, that a true capitalist must have the funds to employ a fair number of men. A little businessman usually works beside his men, as does a master barber, or is in close daily contact with them and replaces them at certain tasks, like a small retail storekeeper.

Special Functions of the Capitalist

But a real capitalist, at a certain stage, must devote himself to functioning only as capitalist, that is, as personified capital. He must look to the control of his workers and the appropriation of their labors, and to the sale of the products. The guilds tried to stop

this in the Middle Ages, for they limited the number of workers that a master might have.

It is all a question of the quantity of capital, which at a given point changes the quality of the person with money from small master to capitalist. He then functions in a wholly different manner. But the minimum of money required to be a capitalist itself advances with changes in technique. Even in early times, some of these efforts required so much money that companies had to be formed, as no individual moneyed man had enough.

The central feature of capital is that the worker is not only hired by the employer but passes under his command as though he were in the army, for it is considered intolerable that a man should lose money by carelessness or inefficiency of his staff. And this military organization, autocratic, irresponsible, proved more efficient as an exploiter than slavery or apprenticeship. At first capital instinctively tried to obtain more money by lengthening the working day, since it took over the primitive modes of production, and time was the only differential that counted.

The Altered Position of Labor under Capitalism

The capitalist system changed the character of labor. Where once labor employed the means of production, now the means of production employed it. Instead of his consuming the means of production for his productive activity, he is consumed by them, as necessary to their life process, as preserving their existence as value, and as expanding it. A furnace that is idle is a loss to the capitalist. It requires the night-work of man. This complete inversion of the relation of dead and living labor, between value and the force that creates value, becomes an axiom of capitalists.

The Foundations of Relative Surplus-Value

We may seem to have wandered very far from the query as to constant and variable capital and the social total working day. But these historical reflections are necessary to usher in the study of relative surplus-value, which alone can indicate the means whereby surplus-value is really produced, the study of the rich details within the framework of the mere hours of labor. Marx considers the

whole of the country as engaged in one gigantic working day because in such a totality all individual competition is eliminated, and it is seen that when only time is the limit, the variable capital alone being a source of value, it is necessary to predicate some other mode of action of variable capital in order that these limits could be circumvented.

To achieve this Marx then asks, How does capital to begin with, in its actual functioning, use labor to create a surplus-value? That is, not what is surplus-value, nor how is it computed by time, but what are the constituents of the labor-process itself within the time limits? For not only does labor have duration, it also has intensity. To lead to this, Marx points out that capital has the right to discipline labor as well as to purchase its time, and that it totally changes the character of labor by making the living worker the servant of the dead tool. This reversal of the role of dead and living labor is the precondition for analyzing labor in the capitalist system, and from now on, labor will be treated as a factor in making capital productive, and as nothing else.

The proportion of constant and variable capital (which Marx calls the *organic composition of capital*), and as we shall see later, of the almost equally significant idea of fixed and circulating capital, can be properly understood, and the seeming dilemmas answered, only when we understand the actual roles of constant and variable capital in action, as against merely understanding their relation to working hours. True, the production of any mass of surplus-value requires a given amount of constant capital to produce it and a given amount of constant capital to absorb it. But these proportions emerge only in actual production.[1]

[1] Marxist popularizers now usually give the organic composition along with absolute surplus-value. This is a mistake. Marx's system is a philosophical unity, and whenever he appears to be diverging from the interests of the student, it is to develop a close argument that will make the reply to his questions automatic, once the exposition is rounded. The teacher of Marxian political economy has to choose between answering ready objections as they come along or channeling them until they flow into the river of his philosophy.

18

The Functioning of Capitalist Production, or Relative Surplus-Value

The necessary working day which we have hitherto discussed has, for the purposes of discussion, been considered as a fixed expenditure of labor within that time. So many hours' work are so many hours, and are all equal for all purposes of the argument. The division of the day between the number of hours used by the worker to reproduce his labor-power and that given gratis to the capitalist, has been the cause of our identifying absolute surplus-value, that is, the ratio of time given free, to that compensated.

In a sense, all surplus-value is absolute surplus, for unless the capitalist gets these hours for nothing, unless they cost him nothing, he can never make money. But let us suppose that the working day is rigorously limited to, say, eight hours. The capitalist seeks to increase surplus-value but since he cannot extend hours, what other possibilities are there for him?

We mean economic possibilities, not cheating. Only one exists, reducing the necessary labor-time. For example, if a worker requires four hours for himself, then if he can accomplish this same reproduction of his labor-power in three hours, the employer has the surplus use of five hours instead of four and does as well as if he had extended the working day to nine hours. The total working time is unchanged, but its constituent parts, necessary and surplus working time, have changed in their proportions to the advantage of the capitalist. He has raised the rate of surplus-value from 4 to 4 or 100 per cent to 5 to 3 or $166\frac{2}{3}$ per cent, without increasing the working day.

Absolute and Relative Surplus-Value Distinguished

The surplus-value produced by prolongation of the working day is called absolute surplus-value. The surplus-value arising from curtailment of the necessary working time and alterations in the

lengths of the two components of the working day is called *relative surplus-value*.

But relative surplus-value and absolute surplus-value can coincide in the same day. The original four hours were absolute; the last hour economized within the same working day is the unique cause of relative surplus-value. And this can be accomplished only by making labor more productive, that is, making it produce more in the same working time.

It may be said that the capitalist does not seek to obtain his advantage over the worker by either a longer day or a more intense use of the same day, but also by the reduction of wages, that is, by diminishing his variable capital. But this is outside the present question.

We must ask how, assuming that the capitalist pays full value, he obtains surplus-value. That, in fact, he seeks to depress the compensation of labor below its value may be true, but is irrelevant here. For, in order to understand the basis of capitalism, we must first find its laws of motion, and for this we begin by assuming value for value. If labor is cheated by selling its labor-power for less than value, then the capitalist is stealing a part of the necessary working time, so that this maneuver would still be subject to the economic referent of what is that necessary working time.

Reducing Time for Acquiring Means of Subsistence

How can a fall in the value of labor-power (for that is what the reduction of necessary labor-time is) be brought about? Such a fall in the value of labor-power means that the necessaries of life which were formerly produced in four hours can now be produced in three. Hence the increased productiveness of labor, in those industries that specially provide the workers means of subsistence, brings down the necessary labor-time all around. And this, in turn, is assisted by an increase in productiveness of instruments that aid in such industries or employments. For example, the cheapness of wheat was greatly aided by the machines called the "little combines." The more efficient fabrication of these combines in turn helped to make them more widely used by the wheat farmers. The cumulative effect of the cheapening of wheat by the use of the combine and of the wider use of that combine, due to its increasing cheapness, helped

to make bread cheaper and so reduce the necessary social time of all workers who are bread-consumers to the extent that their time is devoted to this provision of bread, and to the extent that a cheapening in wheat is reflected in the price of bread.

That is one way of reducing necessary labor-time. Since necessary time bas been defined all along as that necessary to nourisb and sustain the worker and his children, any cheapening of those essentials is a reduction of the bours required for the worker to sustain himself.

But let there be an increase of productivity in the manufacture, or rather the polishing and cutting of large diamonds, and the effect of that upon the working time of the laborer will be non-existent, for he never buys a large diamond. The same is true of M. Guerlain. Were he to lower the price of Shalimar perfume from 300 francs to 240 by more skillful compounding or organization, the mill girls of Alabama could not have their labor-time reduced thereby. It is only the ordinary means of subsistence, or their substitutes (like chicory for coffee), or the raw materials that enter the production of these means of subsistence, or the tools that shape them, that enter into the question. What the worker does not consume does not count in this calculation. Nor would the cbeapening of one or two smaller items of subsistence have any effect. The number of articles that would be more available to the worker would have to be, on the average, enough to affect his cost of living.

It is not the intention of the cheapeners of goods, of course, to reduce the value of labor-power. But Marx is not concerned with consciousness, nor the movements of individuals or individual masses of capital, nor will he discuss the laws of competition until there are first revealed those immanent laws of capitalism which govern these persons and masses and particles, exactly as terrestrial gravitation governs all men, even if they think it is countered by their leaping in the air and flying kites. Marx takes up competition because it illumines one of the immanent laws of capitalism.

Contrast of Total and Individual Production

There are two values to any commodity, in practice, apart from those hitherto described. The social value of a commodity is that

required on the average throughout society, at any given time, to reproduce that article. That is, if 1,000,000 madras shirts of a certain fineness are to be made, the total of this million can be reproduced for $1,000,000 and we can speak of the average social value of a shirt as $1. But this social average is a summary of the costs of thousands of producers, some above the average (the inefficient manufacturers), some at the average (most of them, naturally), and a few below the average (the progressive manufacturers).

Suppose that 12 of these shirts are produced in 12 hours, on the average. Let the value of the means of production in each shirt be 50 cents. 50 cents is the value added by labor. Now suppose a capitalist can produce, say, 16 shirts in place of 12 in 12 hours. The means of production remains the same, 50 cents. But the value added by labor will be less by a fourth of the 50 cents due to it. Less labor-time is incorporated in each shirt. Since his total values are now 87½ cents, the capitalist can sell it at above its individual value, at 90 cents, and still beat all his competitors, though a seller for less than social value.

But to get rid of his products he must extend the market, for now the potential number of shirt-seeking clients has increased. It is for this reason that he lowers the price below the social value, instead of trying to sell more shirts at the social value. He has increased his surplus-value by 2½ cents more than the individual value, that is, he has still further augmented his surplus-value, although he sells for less than before.

This increased surplus-value, then, is not related to the cheapening of the articles of consumption of the workers. It is obtained by increased exploitation of the worker, by his greater productivity. In that way labor produces more value throughout the day, so that even if its cost of items of subsistence is unaltered, it can devote less time to obtaining them since the products to which it adds value now exchange for more of those necessary items for each hour worked. That is, if labor produces twenty-five per cent more in four hours than in three, and the necessaries of life remain unchanged, it need work but three hours to buy what it bought with four. The working day is unaltered, but the employer has gained more time, more surplus-value, for himself.

How Competition Tends to Equalize Costs

Every capitalist is under a compulsion to cheapen his commodities by increasing the productivity of labor. But his increased surplus-value is still due to his gaining more of the workers' time gratis by reducing the time they require for themselves. And if every capitalist is to live he must bring down the social value of his products to that of the most efficient competitor. As soon as competition brings all producers into line, the individual advantage is lost and the extra surplus-value vanishes. The general rate of surplus-value, unlike the individual rate, is changed only when the increased productiveness of labor affects industries that provide the workers with means of sustenance, and then only when that change is social and is enduring.[1]

NOTE: A summary of the difference of the two-shirt processes:

The number of shirts produced in 12 hours. (Surplus-value old process, 100 per cent.)

Old process		*New process*
10	Shirts produced	20
each .50	means of production	.50 each
" .50	added value	.25 "
" 1.00	total value	.75 "
" 1.00	price per shirt	.90 "
10.00	sum total value	15.00 (20 x 75¢)
10.00	" " price	18.00 (20 x 90¢)
5.00	total means of production	10.00
5.00	new value total	5.00
5.00	new price difference	8.00
2.50	variable capital	2.50
6 hours	necessary labor-time	*3 hours 20 minutes*
2.50	surplus-value	5.50
6 hours	surplus time	*8 hours 40 minutes*

[1] Most industrial workers produce means of production. An increase in their wages cannot lead to an increase in the workers' cost of living. This is used by Marx in didactic fashion to answer the "axiom" that higher wages annul their own effects by *proportionately* raising the workers' costs. (See his *Value, Price and Profit.*)

Since surplus-value is the rate of variable capital to total new value added and this is expressed in time, the old ratio of $2.50 variable to $5.00 new value added is 6 hours to 6 hours. Compare with Column II.

Here we have seen that although the value of shirts is brought down from $1.00 to 90 cents and though new value added is cut from 50 to 25 cents, surplus-value has risen from $2.50 to $5.00 and the capitalist has taken the use of 8 hours 40 minutes, not 6 hours, in the same working day. Hence the law:

The value of commodities is in inverse proportion to the productive power of labor and the value of labor-power is in inverse proportion to its own productive power.

The latter is true because the value of labor-power depends on the value of means of subsistence. Relative surplus-value, on the contrary, is directly proportional to the productive power of labor. It rises with the productive power of labor and falls with its decline. There follows from this the deduction that it is not the absolute value of commodities that interests the capitalist, but their surplus-value, realizable by a sale.

Indirect Cheapening of Labor-Power

The productiveness of labor, by cheapening commodities, cheapens the laborer himself by reducing the value of his labor-power since his living can be got in less time. This explains the riddle; why does the capitalist, whose one aim is to produce exchange-values, seek always to lower these values, to sell for less against competitors? It is commonly answered by saying he sells more. But if his disbursements increase in the same proportion, by selling each unit for less he would still realize less than before.

For example a manufacturer sells 1,000 units for $1,000, cost $900. He cuts prices 10 per cent, sells 2,000 for $1,800 and his costs have doubled, for his doubled production, and are now $1,800. He used to make money, now he makes nothing. The usual answer is meaningless, unless he can get his goods produced for less, that is, more in less time.

But once relative surplus-value is seen to increase with productiveness, and it increases only because the value of labor-power

diminishes with its own productiveness, it is clear that the increased exploitation of labor is the cause of the "cheapness of commodities." This is the advantage, says Marx, of efficient, larger-scale production, and not the mere phrase that it lessens costs. The question is, which costs and why?

Hence in capitalist production the economizing of labor by its intensified production does not mean that the working day will be lessened but simply that that portion of it that is given gratis to the capitalist is extended. In fact the increase of relative surplus-value by this intensified production so whets his appetite that he seeks to add still longer hours, for they are worth that much more to him. The incredible increase of productivity of labor, for example, from 1750 to 1850, which, in proportion, has never been rivaled, actually resulted in increasing hours until workers' pressure forced legislation against the tendency.

Specific Modes of Increasing Relative Surplus-Value

Marx now proceeds to examine the specific techniques whereby the relative surplus-value is increased.

Capital exploits labor working co-operatively, that is, in teams.[2] The labor, by its very numbers employed, makes certain that it will be labor of an average social quality. The more the men employed the less their individual differences count. Two or three workers vary a great deal, but when twenty are together, the capitalist can argue that any twenty will produce pretty much the same in two hundred labor-hours a day. The capitalist is free from the chance that his production will be far below the social average due to human failings. A fixed minimum of efficiency is assumed, and soon enforced. The laws of production of value emerge socially, as described in the first part of this study, only when the capitalist system produces in this co-operative large fashion. No surplus-value in the capitalist sense is possible until value itself emerges in the shape of a social production of commodities, an immense continuing accumulation of objects, leading to innumerable acts of exchange.

[2] See the preceding chapter on Manufactures.

Even before any mechanism of production were improved, the joint consumption of tools and raw materials and the use of one workshop in the place of many, led to the transference of less constant capital into the production of labor, and gave greater scope tn the value added by labor. Thus the instruments of labor had a social character before labor itself was co-ordinated properly.

Unlike the purely historical sections on co-operation and manufacture, our interest here is centered on the use of co-operation for the realization of relative surplus-value. Co-operation cheapens commodities and lowers the value of labor-power. Secondly, higher productivity itself alters the rate of profit to the total constant and variable eapital advanced.[3] As Marx says, he should consider profits along with surplus-value, but his division of the subject is exactly like capitalism's own divisions. Economy in the use of eapital, for example, does not concern the worker; he is divided from the method by which his increase in productivity is consumed by the capitalist. Class divisions in life eause departmentalization in theory.

The sum total of forces of workers differs enormously when they co-operate from what they could all do individually, even in the same numbers, when they act together in an undivided operation like moving a load too great for any of them. This gain is independent of machinery, or the use of outside productive forces, and costs the eapitalist nothing, for it cheapens labor, and thus increases relative surplus-value.

The same economic consequences result from the savings due to chains of persons passing on work (now glorified in the conveyor-belt system at Detroit but a very old principle except for its speed-up) for the distribution of tasks that can be performed simultaneously, utilization of scattered work, as in dam-building gangs, temporary groupings like harvesters, etc.

The specific productive power of labor, with no other mechanical aid, is the labor-economizer here. Since this method of reducing labor-time for a job costs capitalists not even the investment in plant, machinery, or raw materials, men like Taylor, Bedaux, and other distributors, combiners, and motion-integrators of work, are eagerly

[3] Reserved for detailed treatment in the *Theory of Profit.*

sought after. (The modern name for this phenomenon is *rationalization,* or speed-up.)[4]

Lately psychologists have been called in to determine vocational adaptation, so that the capitalists save the cost of putting square pegs into round holes. The advantages of radio music in creating rhythms that speed up production have found experimental scientists to plot their curves and plead their effects!

Cumulative Advantages of Large Capital

Since the economies of production require the assembled presence of many men, the larger the capital, the more it can provide both variable capital and constant capital, so that once society begins seeking relative surplus-value the cumulative advantages of large capitals come in to play. The present concentration of wealth began four hundred years ago. It slew the employer of one man where now it sidetracks companies employing a thousand. The descriptions given before of the manufacturing and machine processes as the historical foundations of capitalism may be re-read here uniquely for their significance as the secular trend of the special attribute of capitalism, relative surplus-value.

Social Acquisitions of the Capitalists

Since the productive forces of co-operation cost the capitalist nothing, it might be asked what else he obtains gratis. Steam and water are nature's gifts. The achievements of science are free to all producers. The electric field costs nothing, but the electric telegraph that uses these principles is frightfully expensive in its mechanical costs.

The tool remains, but it is a machine which handles it and the laborer uses it indirectly by way of that mechanism. By utilizing natural force, the social force of labor, the heritage of science and machinery, modern industry has raised productive forces immeasurably.

[4] Taylor, Gantt, Bedaux, and all the other "efficiency engineers" argue that their perfect schemes of muscular co-ordination, etc., do not fatigue the worker but rather eliminate the jerks and discontinuities that really are what hurt him. They do not work in this exquisite, unfailing rhythm themselves.

But this increased productive force is not purchased by an increased expenditure of labor. Machinery, as we have seen, creates no new value, but transfers its own value to its products. The product is made dearer in proportion to the value of the machine. As the modern machine embodies infinitely more value than handicraft tools, that weight of value is a tremendous mass being transferred into every product; it is carried by every article it makes.

This seems contrary to popular belief which instinctively holds that by its immense productive power the value of machinery must prove a steadily lessening part of production. Marx's whole theory of the dynamics of capitalism is based on this assertion of increasing constant capital weight.

How Does Machinery Cheapen Commodities?

How then does machinery cheapen commodities (as we know it does) if it transfers into them an ever greater mass of value? Let us see what appears to contradict Marx's position.

The machine, in the first place, transfers its value bit by bit. If it is long-lived, then, apart from the coal or oil it consumes, it gives its natural force gratis, and it very slowly is transformed into the value of each product. Prorated, it might become extremely small per unit. It compensates for its cost by the immense command it has over the forces of nature. If, then, machines can be made less costly and more efficient in the use of natural force, they will transfer less value to the new product. When machines are made by machinery they are cheapened, and this tendency is steadily gaining. Where then is the importance of Marx's thesis?

Given the rate at which machinery transfers its value to the product the amount of value so transferred depends on the value of the machinery. The less labor it contains the less it imparts to its products. But the less value it yields to its products the more productive it is, the nearer it comes to being a transformation of natural force without cost.

A comparison of commodities produced by hand with the same commodities produced by machinery shows that in the machine-made product the value due to the instruments of labor increases relatively to the value added by labor, but it decreases absolutely.

That is, if in handicrafts a carpet made by a hand loom transfers 100 labor hours of the loom's wear and tear and takes up 500 hours of labor, in the machine economy the cost of the loom-machine might be 90 hours and the labor only 200. Here the machine has cut, or replaced, labor from 500 to 200 hours; it has saved 300 hours, at a transfer cost of 10 hours less. Relatively it represents the ratio of 90 to 200, or 31 per cent of the value produced, whereas the old hand loom represented the ratio of 100 to 600, or $16\frac{2}{3}$ per cent. Yet total value has been cut from 600 to 290, a *net* saving of 310 hours despite its lesser absolute value as constant capital, and despite its increase of constant capital in the value composition of the carpet from 17 to 31 per cent. So its economies do not contradict but confirm the paradox of Marx; the relative weight of constant capital in the commodities has increased.

It has to work out this way because the productiveness of a machine is measured by the labor it displaces. Less labor must be spent in manufacturing the machine than is eliminated by its use. The limit of a machine's utility is its saving of labor-power purchased, that is, its gain of relative surplus-value.

How Machinery Displaces Labor-Costs

How is the statement of Marx that the less value in a machine the greater its productivity, reconciled with the greater percentage of constant capital in the products? By this: that it saves more labor than it costs, so that relatively to the reduced labor, it must rise, and the weight of value transferred from it thus be a higher proportion of the value.

> NOTE: An important difference of calculation will show the subtlety of Marx's method. Ricardo says machines cost less labor than they displace even when the money cost is the same. Marx comments: A machine replaces labor-power but labor-power is less than the value it creates. The machine's money-value represents all the labor in its production, in no matter what proportion it represented wages and surplus-value. Hence the real economy of a machine is the difference between its value and only the labor-power it replaces, *not the total value added by labor*. Dead labor is less, then, than the living labor it replaces.

Since the difference is computed as between the cost of the machinery and merely of the labor-power it replaces, it follows that where labor-power costs little it may not pay to buy any machinery. The higher the labor-power cost in any country, then, the more likely the utilization of machinery. The United States had, for decades, real wages that were much higher than England and its utilization of machinery was proportionately higher. England's level of wages was higher than most of Europe; she was more mechanized than any European country, and was followed closely by Germany. China, India, pre-Soviet Russia and Romania trailed the list of civilizations.[5] The Socialists follow Marx in his assertion that once surplus-value is abolished, and the labor basis of calculation for replacing machinery thus greatly augmented, the advance in mechanization will fully correspond for the first time, unreservedly, to the full technical knowledge of mankind.[6]

[5] Source: *The Economic Forces of the World,* prepared by the Dresdner Bank, Berlin, in 1927 (available in English).

[6] Not that Marx denies the great utilization of machinery inspired by the need for relative surplus-value. What we shall see, later on, is that Marx assumes that the process hitherto described will grow more irregular and the rate of increased utilization of machinery diminish. The chapter on Imperialism and the General Crisis will deal with this inversion of historic tendencies.

19

The Effect of Machinery on the Workers

Machinery reduces the amount of muscular strength required for work. The employment of women and children was immediately sought by the first factory owners. The entire family worked. This became universal and Elizabeth Barrett Browning and Thomas Hood had to give expression to the rising social protest.

> "For Oh," say the children, "we are weary,
> and we cannot run or leap. . . .
> Oh, all day we drive the wheels of iron
> in the factories, round and round."

And

> "They are weeping in the playtime of the others,
> in the country of the free."

And for female labor, Hood's "Song of the Shirt":

> "Stitch! Stitch! Stitch!
> in poverty, hunger and dirt. . . .
>
> "Oh, God! that bread should be so dear,
> and flesh and blood so cheap."

By making a man's family work, this scheme reduced the wages of the father. Father, mother, and two children reduced the labor-time required by each to sustain the family, and the rate of surplus-value was stupendous. The revolutionary gains in production caused the population to increase as never before and to be yoked to toil as never before. It was the heyday of profit, the golden age of the capitalists.

The classic book of Frederick Engels, *The Condition of the Working Class in England* (1844), is the most complete, damning

picture of the dreadful era of early capitalism. Its record of family enslavement and the destruction of all the decencies of life was a potent factor in bringing labor to demand legal safeguards.[1]

But, as everyone knows, in sections of the United States a stubborn rearguard action is still being fougbt for the employment of Appalachian families as an entirety, children and all.

In Japan the factory system is based on family employment. All young capitalisms learn the secret that many machines require little day-to-day strength. All cheap-labor economies come back to it, no matter what their slogans. The Germans under Hitler pompously proclaimed the place of woman in the kitchen and nursery only, but they restored her in the factories in ever greater numbers as their need to incorporate labor-power into armaments went beyond their economic possibilities.

We shall later review the discussion which has raged between Marxists and their opponents as to whether labor conditions have improved at all, taking present-day capitalism as a worldwide field of labor exploitation. The chief statistical expert on their side, Kuczynski, decidedly holds pessimistic views.

The Relation of Machine-Use to Labor-Power Utilization

Machinery is a perpetual mover. Unlike a tool, which requires the motive power of the arm, machines can go on forever. The macbine is a Frankenstein creation that despises its servant, Man, that feeble being that actually gets tired. Since the productiveness of the machine is inversely proportional to the value transferred by it to the product, the longer the life of the machine, the less is the portion of that value added to each commodity produced. The active lifetime of a machine depends on the length of the working day, or rather on the amount of daily labor multiplied by the number of days that that process carries on.

Although the wear and tear of a machine is not proportional to its use, even assuming that it were, a machine working twenty hours a day gets as much done in five years as one working ten hours in

[1] Plus the lifelong crusade of Leonard Horner, the humane Factory Inspector.

ten years. Now a machine wears from use or from disuse. But more than that it undergoes, in Marx's strange phrase, a moral depreciation.

From the moment it is installed it loses exchange value, because better or cheaper machines may come on the market at any moment. Its value is determined not by what it costs to produce but by the labor-time required to reproduce it, or even a better machine. The shorter the period in which it can replace its value the less is the threat of loss. The longer the working day the sborter is the period of anxiety.

This is most often seen when a new machine is introduced, for it is as yet in the experimental stage and is often quickly superseded. Since the longer working day requires no alteration in plant or machine investment, there is an increase of surplus-value and the outlay to obtain it is less. The machine-and-factory form means that its value is botb admirably equipped for expansion through high productivity and its exchange-value imperiled if it is not served by living labor.

A manufacturer said, "When any of our men leaves the mill, he renders worthless an investment of $500,000." In addition to its other services machinery, when it is a monopoly of one or a few concerns, enables them to produce below the social value. They seek to use this differential for all it is worth by using labor to the best advantage.

But a more serious effect is that of machinery itself versus the worker. The machinery, by employing a lesser number of workers for a given capital (by increasing their productivity), converts variable capital, once invested in labor-power, into *machinery, which being constant capital produces no surplus-value.* It is impossible, though, even with the best machines, to squeeze as much surplus-value out of a hundred men as out of a thousand. Even if each man should produce his labor-time in one hour where he once did it in eight, it would not be possible to equal the former surplus-value. Machinery applied to the production of surplus-value (its only reason for existing) implies a contradiction in its very nature.

It can increase the rate of surplus-value only by replacing workmen. As soon as machinery becomes general in an industry, the

value of its products is the same as the value of all similar commodities, and so the capitalist, his advantages canceled, tries to lengthen the working day so he may compensate the decrease of workers employed through an increase in absolute surplus-value. The advantages of relative surplus-value are not "all that glisters." For the rate of surplus-value has to be multiplied by the labor-time of workers from whom it is extracted, to get a mass of surplus-value.

The Effect of Machinery on Quality of Labor

Machinery not only makes its own compulsions toward increasing the working day, but it opens up whole strata of the population —the weak, the unskilled, the ignorant, even the feeble-minded—for certain jobs. To turn a screw all day long on a conveyer belt requires a type of man who is best pictured by *Á Nous la Liberté,* the superb French film, or its American counterpart, Charlie Chaplin's *Modern Times.*

Its greatest service is to throw millions of men out of work. For years this was denied, because there were countervailing tendencies. But in the last two decades, "technological unemployment," as forecast by Ricardo and Marx, has become a universal problem.

For a long time the displaced workers found some other employments, in distribution trades or superfluities, but whenever the volume of profits declines, the underlying surplus population created by the machine becomes the "industrial reserve army."

It is the merit of Marx that by his theory of relative surplus-value he has given an economic and not a mechanical argument as to why this occurs. The dream of Aristotle, that if every tool could do its own work men would be free, meant there would be neither slaves nor lords. It was the Golden Age, anticipated. He never understood, says Marx, the economic theory that machinery was turned into a weapon for increasing the working day, limited only by social resistance, not by economic law.

Effect of Shorter Working Day on Types of Machinery

The employers have been thwarted in lengthening the working day. We now turn to the still further intensification of labor. The

worker, apart from the contribution of machinery, can be compelled to exert more strength in his limited number of hours. The speed of the machinery can be increased as a pace-setter. The workman can be given more machinery to tend. The machinery itself must be better built to stand up under this extension of use and the shorter working day means that the capitalist must watch his costs more carefully. Heavy shaftings, for example, are replaced by more compact, lighter shaftings. Since Marx wrote, the intensity of labor has increased by about 80 per cent per capita in England (from 1867 to 1932).

The Effect of the Factory System

The factory system itself is an admirable mechanism for extracting surplus-value. Since Marx wrote, the factories he described have been dwarfed by such monsters as the Ford River Rouge plant, the Krupp plant in Essen, Germany, the Creusot works in France, and others.

The factory is a vast automaton of mechanical and intellectual organs working in concert, all being regulated by a single moving force. This central, automatic, moving force is an autocrat that none can disobey, his rhythms are theirs.

Apart from rhetoric, what are the economic consequences? That since the capabilities of the tool are freed from the restrictions inseparable from fallible human labor-power, the division of labor is swept away.

In the Ford plant, it has been alleged that 43 per cent of the workers require one day's tuition, 36 per cent up to eight days, 6 per cent up to a fortnight, 14 per cent from a month to a year, and only 1 per cent require more than a year, that is, are equivalent to the old-time "skilled mechanic."

Instead of the elaborate hierarchy of workmen in the guild and manufacturing system, and even in early capitalism, the tendency is toward a giant collection of level workers. Men like William Morris and John Ruskin foresaw this with horror, as did the American idealists like Thoreau. Workmanship was man's Godlike heritage. He too fashioned worlds, if small ones. But now the designing and beauty of machines is confined to a few highly trained engineers.

Workers are trained now to tend certain groups of machines, hence their co-operation is as primitive as that which built the Pyramids. The division of labor is technical, not craftsmanlike. Since the movement proceeds from the machine and not from the man, it creates a group of operatives trained to a set of motions rather than to a skill.

The expenses of the reproduction of labor-power are made minimal on the training side. Millions of Polish and Italian peasants, fresh from the farm, were hurled into American heavy industry and were paid at a rate consistent with that training. Their millions of children, trained to the same routines, have formed the background of the revolt against trades unionism (survival of the manufacturing epoch), and have joined the C. I. O., organ of the mass-production system.

The annexation of masses of workers to the machines, as a detail of their production, increases the dependence of workers on capitalists. The worker is exhausted by the constant repetition. The play of his mind and muscles is reduced. The whole man is ended. There is no personal initiative, whereas the factory is animated by a class that has all the social initiative, the owners.

They alone are outside the detail function; they alone have a comprehensive view of what they are undertaking. They regard the worker not as a fellow human being but as a comparatively uninteresting appendage of their machines. For such robots, a barracks discipline is considered necessary since they cannot "think for themselves." "The place of the slaveholder's lash is taken by the foreman's book of penalties." The large factory has a code of its own, parallel with outside law. It becomes increasingly political, that is, a state within the state. In some of the United States the factory owners are permitted, in effect, to have a private militia.

The organs of sense are dulled, the accidents of industry read like those of a civil war. Casualties are normal and expected. There is no longer any carryover from older social forms. Labor, as Marx's analysis pointed out, in its very beginning, becomes abstract labor, the commodities increasingly exemplify the laws of value.

Why Workers Resisted the Machines

At first the workers resisted because they sensed this development. Displaced handicraft workers attacked the machines.[2] Not until 1850 did attacks on new machinery cease in Western Europe and America, and as late as 1905 the army in Romania had to protect new grain elevators against the mass assault of thousands of displaced workers. Because the first machines could be seen as his direct competitors, the workingman had no patience with their introduction. The masters plead that the sufferings of the workers are temporary and that by its immense productivity the machine will create more employment than it takes away. This plea becomes an axiom in political economy. Unfortunately men cannot eat axioms. In countries such as India the introduction of the power loom ruined hundreds of thousands of spinners, who actually died of starvation. Long before the machines could employ more labor they killed whole sections of the workers, and these the most skilled, the longest trained, the most resourceful and intelligent. They replaced this excellent breed by the people driven off the land, the unskilled peasants.

The Calvary of the working class is the manner in which relative surplus-value makes its historic commencement. As Marx puts it, since the machines go from one trade to another, always displacing more and more people, and since machines displace other machines, the "temporary inconvenience" they cause really becomes permanent.

Every time the workers fight through strikes the capitalist finds a new economic motive for introducing further mechanical improvements, since the cost of these strikes is itself part of the cost of labor-power, by aiding the depreciation of plant investment.

Are the Workers Compensated with New Employments by the Machine?

This question is central for the cost implications of the drive for relative surplus-value. Marx begins with a common example.

A capitalist employs 100 workers at $500 a year each in a carpet

[2] The Luddite Riots of 1811 were the most celebrated. The eloquence of Lord Byron to his unmoved peers is one of the highest expressions of pathos, justice, and understanding on behalf of the workers.

factory. His variable capital, the cost of labor-power, is $50,000 per annum. He buys machinery for $25,000 and discharges half his staff. (Let us put to one side, for this purpose, his expense for fuel.) Suppose that the raw material costs him $50,000 both before and after the installation of the machine. How much capital is set free by this innovation?

Before the change, variable capital and constant capital were equal, but afterward capital consisted of $75,000 constant (machinery and raw materials) and $25,000 variable (labor-power cut in half). Capital is not set free; rather, it is increasingly locked up. Hence a total capital of $100,000 can now employ only half the men it did before. With each improvement it will employ still less. If the machine had cost only $10,000 and still replaced the $25,000 in variable capital, it would have set $15,000 free. This sum of $15,000 set free could still employ 30 men out of the 50 who were discharged. But it would employ still fewer, for in order to use these 30, some of the amount saved would have to be put necessarily into constant capital. By no calculation could machinery here do anything but diminish the employment of labor.

But the making of this machinery for the carpet factory employed mechanics. This is scarcely compensation for displaced carpet-workers. But even as a quantity it must employ fewer than the carpet-workers it displaces. For the $25,000 that formerly represented the wages of carpet-workers who were discharged now represents:

(*a*) The value of means of production that were put into the machinery.
(*b*) The wages of the mechanics who built it.
(*c*) The surplus-value of their employer.

That means that variable capital is displaced by much less variable capital. The machines take time to wear out. For that reason, if the machine-maker is to keep his workers going, he must displace one set of carpet-workers after another.

The Difference between Social Use and Labor Displacement

Now what the theorists mean is not that this machine uses less as variable capital than that it displaces. They mean that the

$25,000 formerly paid in wages to the displaced workers must seek investment and it cannot rest until it employs fifty men. So that, in short order, a demand must rise for an equivalent amount of labor somewhere else.

Before studying that reinvestment let us see what has really happened to the discharged laborers. They are no longer buyers of commodities. Their lack of demand tends to reduce the price of these commodities.

The labor employed in making the machine must always be less than that displaced by its employment, otherwise it would not be used. So there is a net decline in demand for the means of subsistence. If this goes on for some time there is a discharge of workmen engaged in producing the means of subsistence, because of the lessened demand.

Some of the capital that was used in producing these means of subsistence is itself looking for other investment. The unemployment of the displaced workers induces unemployment of those who make their means of sustenance.

The men thrown out of work are on the labor market. They add to the number of men at the disposal of the capitalists. They must seek work in another branch of industry. They can find this employment only because there is new capital seeking investment, additional capital that has been converted from the surplus-value of other workers. But not that of the capital that formerly employed them, for that was converted into machinery. It cannot be employed twice over.

The laborer is now in a trade he does not know. He is forced to take any work and his tendency is to accept lower wages in less skilled employment. Further, every branch of industry, as machinery is improved in it, is sending its rejected men to the same labor market. Badly-paid work is the best that can happen even if they are employed. But often they are not, for long periods.

Now it is true that machinery cheapens and increases the production of goods. At first that effect is not felt because of the reduction of the means of subsistence in other branches, due to lessened demand of the discharged help. Society has just as much, if not more, *goods* for the supply of the workers. It is not machinery

that has injured the workers, it is its social use. Machinery, in itself, shortens hours, lightens labor, is a victory of man over nature, and increases the wealth of producers. In the hands of capital, Marx holds, it increases hours, makes labor more burdensome, makes man the slave of the machine and brings about pauperism. But the economists see it as a physical amelioration, and confound this with the economic contradictions in which that amelioration is made manifest.

Increased Demand for Raw Materials

What the apologists mean is that the total quantity of products made by machinery far exceeds what has been made before. If the product is trebled, then the raw materials used must be trebled. But as regards the other instruments of production, these can only be increased up to less than the difference between former production and machine production. Otherwise the economies of introducing the machine would have been canceled.

The use of machinery assists employment in the industries that supply the means of production to that industry. This is a genuine increase in employment. The amount of new employment in the trades furnishing raw materials, however, depends on their working day and intensity of labor, to take the two factors of surplus-value, and on the ratio of constant and variable capital. Where machinery is simultaneously spreading in those trades (it usually does), the benefit is less than the number displaced by the machines in the trade served by the raw-material industries. Where it usually gives much employment is in a colonial country or a primitive country where machinery is little used.

But sometimes the reverse takes place even here. The enormous development of woolen manufactures in Britain turned the countryside into pastures to supply the wool. Farmers were displaced by the million. Ireland was depopulated. The compensation of Australian pastoral employment may not have equaled the loss in the old country. So it is by no means certain that even the enormous increase in production, requiring more raw materials, will increase a corresponding use of *labor* in those supply employments.

Temporary Advantage to Backward Trades

There are temporary advantages to some classes of labor. For example, the development of cotton spinning supplied yarn so cheaply to the hand-loom weavers that for a few years they did very well. But in a decade or so, the 800,000 weavers who were employed because of the spinning jenny, throstle, and mule were decimated by the power loom. So too at first the abundance of woolen and cotton cloths called forth great numbers of needleworkers until the sewing machine got rid of most of them. The advantages, then, of machinery, in every instance cited above, where they have been found, have been short of duration and have been manifested in industries with still more primitive techniques.

What the increase of productivity of machinery does do is to split up industry into more branches than ever. It concentrates more and more on specialized production, calls forth great reserves of raw material, makes necessary new means of transportation and power, and so, by reason of its very quantity of production, carries further the social division of labor.

Increase in Luxury Employments

Since machinery greatly augments surplus-value, and the mass of products in which that surplus-value is embodied, it leads to an increase of luxury. Fewer men are wanted in the factories and more as servants and as retailers' assistants to supply the needs of the rich. The luxury trades require elegant goods from abroad, etc., and so the carrying trades do well. Here the effect of machinery is to shift employment from production to transportation and distribution of goods, and also personal service. For every few workmen displaced there is money to hire either a journalist or crystal-gazer or jockey or *artiste*.

More Public Works Required

On a more serious basis, the greater productivity of goods also employs more workers in public or semipublic undertakings such as roads, electric works, gas works, turbines, railways, etc. Nearly all such persons are those of the crudest labor levels, the poorest paid.

The new industries rarely employ as many men as those they displace. A good example appears in the United States where since 1914 electric refrigerators, radios, etc., bave employed trifling numbers of people.

Since 1900 the automobile, a mass production article, which displaced a small industry, carriages—not by new machinery but by a *wholly new intervention of capital*—has accounted both directly and indirectly for almost the total increase of employment in the twentieth century, due to its collateral effect on steel, aluminum, railway freights, petroleum, garages, supplies, rubber, etc.

Summary of Displacement and Types of New Employment

To sum up, the effect of machinery is that the displaced workers are permanently eliminated in their own trades, that their unemployment eauses other unemployment in the means-of-subsistence industries serving them, that they are re-employed by new eapital only at lower rates.

The increase in production stimulates employment in raw-material industries but mostly in colonial countries with a small capital investment. It is not completely true even for this instance.

The persons employed in making new machines, plants, etc., must always be fewer than those they displaced, or there would be no reason for superseding labor.

It is true that sometimes more primitive industries, whose rate of production has not yet caught up with those of the mechanical industries supplying them, temporarily benefit. But machine industry soon catches up and makes their rhythm of consumption rival the other's production, thus increasing unemployment.

Displaced labor is constantly being thrown on the market by this nearly simultaneously increasing mechanization. The social division of labor and specific needs of greater production bring about some, but not enough, employment in the public works industries.

But the major part of new employment is in the superfluous or luxurious trades arising out of the expenditure of the surplus-value by the capitalists themselves. Thus the three effects of machinery are a tendency to form masses of unemployed, to increase their

capricious assimilation, and to augment the less productive trades.

This analysis of Marx explains why there has been a constant increase, over a period of years, of labor, despite its displacement by machinery. He denies that there is an automatic reinvestment of capital. He notes the astonishing waste of industrial unemployment. He sees the gain in distribution trade and in odd jobs as against industrial work.

But it is well known that certain trades have, at given times, actually increased the total number of their employees even after they have introduced machinery. What is the basis in these special instances? Marx has considered the theory of replacement as a social average, as he does all economic questions.

Cases Where Machinery Increases Employment

Suppose a business employs $5,000 a week, $2,000 constant and $3,000 variable capital. The $3,000 is the wages of 200 people at $15 a week each. Machinery is introduced. Wages are cut to $1,000, that is, one-third of the workers remain. The constant capital is increased to $4,000. The ratio of variable to constant falls from 3 to 2 to 1 to 4.

But suppose the business to expand enormously. Suppose the total capital to grow to $20,000 a week. Even if variable capital is as 1 to 4 it is still $5,000, and can employ 166 people in place of 100. Relatively to what the variable capital would have been without the machinery—that is, relative to the constant capital—there is a decline, but not in absolute number of persons employed, only, so to speak, in persons that might have been employed.

It is more than probable that the proportion of constant capital would constantly gain, for the factory system keeps on, according to its own laws, replacing variable by constant capital to increase relative surplus-value. Until it again follows its laws, though (and during a period of rest), a gross expansion in business may lead to a relatively smaller increase of employment, but an increase nevertheless.

Now Marx defines the limits of this type of growth. Written in 1867 his analysis has proved uncanny in prophetic power. He says that:

(1) The first period in which machinery conquers, produces extraordinary profits, since the difference between handicrafts and machinery is fantastically large.

(2) These profits not only form an accelerated accumulation of new capital but attract into this favored sphere new capital hungry for this immense rate and mass of profits.

(3) The special advantages of this first period of fast and furious activity is felt in every branch invaded by machinery.

(4) So soon as the factory system is widespread and machinery is replaced by better machinery, and as soon as the power industries have begun to catch up with the productive industries (such as coal and metals) and means of transport correspond in development, this mode of production has a capacity for sudden extension by leaps and bounds, with only two limits:

(*a*) supply of raw materials.
(*b*) markets for goods produced.

The Limits of Increasing Production

Thus the development of industry operates on the one hand to increase production of raw materials and food in the colonial and backward lands, and on the other, compels the search for wider markets, which is the real reason why the factory system for a long period could expand, despite the labor it displaced at home.

International division of labor replaces national. Britain no longer grows wheat, the Argentine does it for her. The United States grows her cotton. Australia is a wool colony. English farmers and sheep-raisers are injured. The cheapness of the means of subsistence imported into England under the system of Free Trade was the real reason wby the variable capital could expand. It took less time for a worker to reproduce bis sustenance.

On the other hand, British home markets being inadequate for the production of the country (largely due to the appalling poverty of the people), the salesman of Empire appeared everywhere and soon the export trade became vital. As it increased, British ships carried their coal abroad so as not to be in ballast on the outward trip to the lands from which they brought back gold and wool and wheat and cotton.

Coal was mined as never before and fuel became "cheap as dirt." Each hand washed the other. At last the capitalists of every country were dependent on world conditions for prices and markets. This struggle for markets forces a still greater need for cheap goods to be produced, and this is a new spur to replacing labor by machinery.

Employment Becomes More Irregular

When this does not suffice there is a lunatic competition in every country to reduce wages below value so as to crush the foreign competitors. The worker now is worse off than in the early epoch of capitalism in that he is thrown out of a job not merely by machinery but by crises as well.

So that a dynamic way of living takes the place of static labor. True, employment is increased by the world market, but the instability of that market causes interrupted cycles of that employment. It is doubtful whether the total of hours worked has seriously increased, once this periodical employment is counted in. Labor is alternately repelled from employment and attracted into employment exactly as in an electrical field. Certain of the workers lose jobs because of machinery, others are admitted to new employments brought about by new capital, others go into the old trades that have gained by acquiring a world market, these in turn lose their jobs in crises, and so a whirling wheel goes about shaking its human constituents irregularly.

According to Marx, as capitalism advances the periods of expansion tend to grow less and those of stagnation and crisis to become longer and more acute. The shrinking of new markets, as more and more are conquered, must diminish progressively the escapes which society has been given from the deadly tendency to reduction of variable capital inherent in the machine.[8]

[8] The United States is somewhat different, for up to 1890 it was a high-wages country due to free land, and machinery was introduced for that reason. Until the World War the need to explore its resources, and the addition of millions of immigrants, gave it an expanding home market. It shared in the employment created by Europe's need of raw materials and it used Europe's money. The triple combination negatived the effects of machinery. But since 1919 machine employment has declined absolutely.

NOTES: Marx points out that the protection of labor by factory acts, or industrial relations laws, and industrial inspection by the state helps to reduce isolated little industries and home employments that can live only by "sweating" their workers, because of their insanitary conditions or their long hours, or their lack of investment, as in home-work. It accelerates the concentration of capital and leads to monopoly of the factory system. It destroys the ancient and traditional forms of production (as cigar rolling by hand, by one master and two men) and replaces it by the direct and open sway of capital. In each factory, this system of government regulations forces uniformity, regularity, order, and, therefore, economy.

It helps intensify, despite its humane service, every inherent tendency in capitalism. By destroying the petty and domestic trades, it takes away the last refuge of the redundant population, so putting everyone "on relief" in a crisis. It matures the conditions for an explosion due to the antagonism of classes, by abolishing the safety valve, small, insanitary, inefficient, overworked production.

Marx points out that capitalism, by combining men more in cities, increases social and economic instability, disturbs the circulation of matter (such as human waste) between man and the soil; by the mechanization of agriculture makes it more capitalistic, increases hired and tenant farmers, etc. But the union of town and country must be restored, but in the higher degree that science and technology now permit. Capitalistic agriculture robs the soil, for it seeks a maximum return in a minimum time, whereas the soil is a non-temporal reserve, it requires tilling and care on a long-term basis, on a permanent basis, in fact.

If a country starts on a high industrial plane, it will to that extent treat its farming in the same way. The United States (Marx wrote during the Civil War) will most sharply, therefore, exhibit the erosion and waste of the soil. In industry it harnesses man to the machine and makes him a function of an automaton, in agriculture it injures the permanent heritage of the race for an immense, temporary, impressive gain in production of raw materials required by capitalism to reduce the labor-time of the workers by making food cheap and so develop the accumulation of capital out of surplus-value. One problem leads into the other.

20

The Total System of Surplus-Value; Synthesis of Absolute and Relative Laws[1]

Productive labor is the production of use-values. That is so in nature and in the relation of man and nature. In capitalist production, in so far as it is a collective process of work, no one person creates use-values, but he does so only as part of a group that by interaction creates these use-values. But from the viewpoint of the employer, or capitalist, a productive worker is one who turns out not use-values but surplus-value and that alone.

This is the social stamp of capitalism, and it is so pervasive that it carries through the texture of production. It is considered natural to close a factory that has turned out many use-values but no surplus-value.

We have learned that absolute surplus-value arises out of the distinction between the socially necessary labor-time devoted to the reproduction of a worker's labor-power and the time he gives gratis to the capitalist.

The lengthening of the time devoted gratis is the absolute surplus-value. On the other hand, Marx has just exhibited the varied social implications of the more common mode of extracting surplus-value, the relative, which reduces the time devoted to the reproduction of labor-power by increasing its intense use. By the side of capital exhibiting itself in this form, we have survivals of domestic economy, merchant economy, etc., small masters, which are intermediate between the older system of labor relations and the highly developed ones. But these progressively diminish in importance.

Of course, relative surplus-value is nothing more than a detail of refinement of absolute surplus-value. The absolute surplus-value requires that production permits the worker to have enough surplus

[1] This chapter is more useful for students intending continued studies of Marxism than for the general course.

to divide. A certain technical level is minimal. Relative surplus-value cannot arise until that previous capacity has become a reality.

In primitive production man is limited by the natural or geographical possibilities of supplying means of subsistence; under capitalism he is limited by the instruments of labor. This difference is shown by the replacement of the fertile tropics by the less fruitful temperate zone as the seat of modern industry.

This recapitulation done, let us now study some changes in the magnitudes or quantitative differences in the price of labor-power and surplus-value.[2] We begin with three determinants, length of the working day, intensity of work in any given time and, lastly, the degree of productivity which is dependent on the utilization of machinery, etc. Any of these three determinants may vary, or any two of them, or all three of them may alter. As they vary in degree as well, the combinations are nominally unlimited. Let us consider only the variations most frequently met.

Length of Working Day and Intensity of Labor Constant, Productivity Variable

Since value is labor-time, whatever the variations in the productivity, the value produced will be constant. The same value is spread over more articles if productivity increases, over less if it declines. But the value of labor-power is in inverse relation to productivity, so that the greater the productivity the more the surplus-value, the less the productivity the less the surplus-value.

The value of labor-power and the surplus-value must always move in opposite directions, each being opposed to the other. They can never rise or fall simultaneously. The interests of worker and capitalist are flatly contrary. Without a gain in productivity, in this instance, no increase in surplus-value is possible since the time and intensity of work are constant.[3]

[2] The following syntheses of all types of surplus-value are helpful but not *essential* to the introductory study of Marxist economic theory.

[3] Ricardo formulated these laws. But he applied them to profit and not merely to surplus-value. As for Marx, with a given rate of surplus-value, one may have several rates of profit and with several rates of surplus-value a single rate of profit; it follows that he regards Ricardo's formulation as too inclusive and confused.

Length of Working Day Constant, Productiveness Constant, Intensity Variable

The working day produces more value, but the very intensity that causes this greater value causes more wear and tear in labor, and so it requires greater value in labor-power to reproduce itself. The intensity of labor produces more commodities in its working day. Unlike the increased productivity in the former variation, where each commodity is worth less as productivity is increased, here the value of each commodity remains unchanged; as their number increases, so does the sum of their values. If the price of labor were not to increase with the increased intensity, then labor would really be robbed, that is, paid below value, that is, wear and tear not compensated.

The significance of this variation is not in the foregoing as much as in its exhibition of the need for a great elasticity in studying Marxian doctrine and the inadequacy of the learning of his formulas by rote. For here a given working day produces, as a result of the intervention of labor, not a constant but a variable value. Now if the value of a day's labor increases from $6 to $8, then it is possible for the price of labor-power and surplus-value to rise simultaneously, each can take $1 more, for example. Why? Because labor here varies from its intensity in normal society. Note that Marx formulates a working day as constant and intensity as variable.

In other words, the meaning that a working day is constant applies only when a given intensity is the average, but when it is eccentric the temporary deviation from the social norm permits both labor and capital to take their compensation out of the market. But even a rise in the price of labor-power—in this case, increased wages—if it does not fully compensate the wear and tear of the worker, means that the worker is realizing a higher price but still is being paid below value.

Now it is a Marxist dictum that, with rare and passing exceptions, the changes in the productiveness of labor do not cause any change in the value of labor-power nor, therefore, in the quantity of surplus-value, unless the product so affected is consumed habitually by the workers. Yet here the productiveness of labor does cause such a

change. Because when the variation is either in the duration of work (labor-time), or in the intensity of work (but not in productivity, due to machinery), then value is increased, no matter what the articles produced. But if that intensity becomes generalized (as it must if it endures), then this intensity becomes the *social norm* and so the Marxian law prevails once more.

Marx here shows that even his most cherished doctrines are descriptions of *social* production, and that wherever there are temporary deviations, even the most cherished formulations cannot ignore these small variations. They do not contradict his laws, rather they demonstrate their real validity, which is that in so far as any production of value is generalized, in that proportion do the Marxist principles hold. But there are comets in the heavens as well as stars and planets.

Productiveness and Intensity of Labor Constant, Working Day Variable

In this variation the creation of value by the worker is in exact relation to the length of the working day. The more hours the more value. Where the working day is shortened, as it cannot fall below the necessary labor-time to reproduce labor-power, it follows that any variation in the time worked would affect only the quantity of surplus-value. This would be true, of course, no matter what the rate of surplus-value.

If the day is lengthened only the surplus-value magnitude is increased, since the necessary labor-time already has compensated the labor-power. So far it looks like a restatement of absolute surplus-value, allowing only for variations in hours worked. But the third law is curious. The value of labor-power, not relative to surplus-value, but the value itself, can be diminished if the prolongation of the working day results only in an increase in surplus-value which thus, by not compensating the labor-power for the increased wear and tear due to longer hours, really takes away from it a part of its actual value.

So that, up to a given point, the increased wear and tear of a long day may be paid for in wages, but beyond that point labor is numbed, and every condition for its perpetuation is suppressed or

injured. The price of labor-power no longer can compensate for such a degree of exploitation because the reward and the physiological destruction are no longer commensurable quantities.

Here Marx steps out of mathematical equations to show that the laws of value and surplus-value cease to be operative at a point where the worker is exploited to death's door. At that point calculation ceases and biology enters. The worker fights for life: there is no longer any question of values to be compensated.

This is a second illustration of the realistic approacb to political economy.

Transmutation of Surplus-Value Time in Collectivist Economy

In a series of summaries in which he gives many further variations, in one of which he attacks the foundations of fact on which Ricardo based his celebrated theory of rent and diminishing returns, Marx makes a positive contribution to the theory of necessary working-time.

If the length of the working day were to shrink to what the worker required to reproduce his labor-power the capitalist system would vanish. But it does not follow that in a socialist community the necessary labor-time would merely be as long as it is now. For the notion of "means of subsistence" would expand. The laborer, by laying claim to a wholly different standard of living, would work more to produce a higher standard of consumption goods and a more ample provision for production goods, so as to accelerate production.

A part of what is now counted as surplus-value would, of course, remain, in so far as it is a provision for reserves and accumulation. It is, then, not so much a question of how many hours would be worked as what would be the social reward for such efforts, in qualities and quantity, and how much a socialist order would create by way of increasing reserves instead of the serious wastes arising under capitalism from crises, competitive duplications, waste, corruption, war, etc.

The elimination of negative aspects of society, that is, all exploitation and all its social concomitants, would reduce the time by that now required to provide these negative features but, to the

extent that a richer society was sought, more hours would have to be devoted. It would not be an arithmetical question; it would be a different social reality, not quantitatively comparable with a society based on wholly different assumptions.

The more the productivity of labor increased the more hours could be shortened. The more the working day were shortened the greater the intensity it could absorb, down to a given point. Capitalism, on the other hand, makes every business sharply economical, but squanders its resources in competition, social misuse of labor, diversion of consumption due to the obtaining of labor gratis, and the creation of superfluous employments brought about by the supersession of labor and the need to employ the surplus-value so obtained. Then again, the millions of idlers, wastrels, apologists, satellites, criminals, promoters, etc., could, by being added to the labor supply, appreciably cut down the average social time for production.

21

The Law of Profit

Surplus-value is the foundation of profits. It might be better said that profit is a name for a relation of surplus-value to total capital invested, instead of only to variable capital. As Marx puts it, the capitalist cost of a commodity is measured by the expenditure of capital, whereas the economic cost of a commodity is measured by the expenditure of labor. Capitalist cost-price of a commodity then is a quantity different from its value or its actual cost-price. It is less than the value of a commodity.

Capitalist Viewpoint Differs from Economic Analysis

Now we know that commodities, although they include surplus-value, do not exchange for more than value but only for their value. For exchange-value, expressed as price, is merely the outward manifestation of value and, as such, cannot manifest more than it is. Labor-power gives a new value to every commodity and that new value is divided into the value of variable capital and surplus-value. But the capitalist does not think that he sells commodities at their value. He counts his costs, he sees his selling price and any difference between them is profit, a true surplus as far as he is concerned, a supplement to the value of the goods, which, in his nomenclature, is its cost to him. He makes his profit, he thinks, not in the factory, for that is all costs to him, but in the market. The factory is expense, the market, profit. We have seen that this is nothing like the facts, but for all that the capitalist way of looking at his operations is a reality we must now dissect.

For the capitalist, if goods sell below their cost, then the value of his advanced capital that has been consumed is not recovered and if this keeps on he will lose his capital. The cost of the commodity was what he, the capitalist, paid for it. It is for that reason that

the capitalist is forced to think that the surplus-value he realizes when he sells commodities is the excess of sale price over value instead of an excess *within its value* over cost. For him the sale is the profit, and he will argue "no sale, no profit."

Fixed and Circulating Capital

Apart from this first distinction, the capitalist has no conception of the distinction between constant capital and variable capital. He would say, "My capital is divided into two sections, long-term investments that stay there through many jobs, years in fact, and short-term purchases that are used up in the production of the goods I am going to sell." The first group he calls *fixed capital* and the second, which includes both raw materials and wages, he calls *circulating capital*. Marx's distinction of constant and variable capitals was made so as to fathom the real source of capitalist profits.

But the capitalist, too, has a motive for his own accounting language. He measures the speed of turnover. The capital that turns over quickly can be isolated and as that is a large factor in his calculations he must know it, and know it in that way. He is really classifying capital by a question, "How soon will I put up fresh money for *X?* In a few weeks? That's circulating capital. In a few years? That's fixed capital."

The Accounting View of Profit

The capitalist lumps wages and raw materials together for that reason. And for that reason he has a wholly different conception of the rate of surplus-value from the Marxist who takes it as a ratio to wages alone. For by this means too his bookkeeping takes no notice of unpaid labor. He says: "What unpaid labor? I reckon $5,000 for wages, $3,000 for raw materials, $2,000 for wear and tear of machinery and depreciation of plant, $200 for insurance, $200 for freight, $300 for commission to my salesman, $100 for trade advertising, and $200 for allocated office expenses, such as books, pen, ink and what-not, $150 for reserve for emergencies, and, the deuce with the government that gives *me* nothing, $400 reserve for taxes. Add it up. Expenses $11,550. What do I get for my goods? $12,000, and Robinson, my customer, takes off 2 per cent for cash,

that makes $11,760 net. And another thing, I borrowed money from the bank, $10,000, and it took 30 days to pay it off, that's one-twelfth of 6 per cent a year, or $100.

"So my profit is a measly $110 for all my headaches. What unpaid labor? I paid those lazy workers more than they'll ever give me. Don't look and they'll cheat on you. They should hang the bankers, and get rid of the racketeering trades unions and kick the politicians out of the government and save taxes, and then maybe there'd be a chance for a businessman to make out. Look into my ledgers and show me unpaid labor! But look into my kidneys and you'll find an occupational disease that comes from all my worries."

It would not be easy to impress this small businessman with the long analysis of unpaid labor in the Marxian examination of surplus-value. For his business purposes, then, his economic division is fixed and circulating capital. He makes surplus-value a product of his entire capital, both constant and variable. That he calls the rate of profit. Owing to the money-form of buying labor-power, that can appear only on the books as paid for in full, and the difference between cost and sales is entered to profit and not to unpaid labor.

Rate of Profit Less than Rate of Surplus-Value

The rate of profit must always be smaller than the rate of surplus-value, for it is calculated against a larger basis, a basis that includes constant capital. If constant capital is $100,000 and variable capital is $20,000, then a profit of $20,000 is 100 per cent on variable capital, but 16⅔ per cent on total capital.

Profit Possibilities at Sales Less Than Value

It is clear that from a Marxist viewpoint the value of a commodity must include the profit, since it includes the surplus-value. But a capitalist may sell a commodity to a profit *even if he sells it below its value.* For he need not recover the whole of the surplus-value. So long as he recovers a difference above his cost he has got some of the surplus-value, that is, he has a profit. Very well then, he takes three hours' unpaid labor in place of four. But he still makes money. That accounts for the constantly met underselling, dump-

ing, bargains, and this is done continuously by solid merchants who get richer and richer. They are men willing to shave prices below value but not below cost. The bigger the surplus-value the greater their play. We shall see later what a brisk turnover does for these merchants.

It is interesting to note that the idea that it is cost-price that constitutes value, instead of labor-time, is at the basis of so many schemes to eliminate profits by a currency that represents cost-price only (the Douglas scheme).

Causes of Rate of Profit

The rate of profit is determined by two factors that are primary and intensified by a third. These two basic elements are the rate of surplus-value and the composition of the value of capital.

Given the same organic composition, the rate of profit is in proportion to the surplus-value. A capital of $100,000 consists of $75,000 constant and $25,000 variable. The rate of surplus-value is 50 per cent, or half of the variable capital, that is, $12,500. The rate of profit is the ratio that $12,500 bears to the total capital of $100,000, or 12½ per cent, a rate one-fourth that of surplus-value. But the surplus-value may not always be realized in sales. Let us say that only $10,000 is realized as profit. Then the realized rate of surplus-value is 40 per cent, the rate of profit realized 10 per cent. But the mass of surplus-value and of profit are always identical.

The second factor of the organic composition of capital can be seen best by comparing two different capitals. In one case the constant capital is $100,000, and the variable is $25,000; in the second the variable is $100,000 and the constant $25,000. If the rate of surplus-value is 100 per cent in the first case, that is, $25,000, the profit rate on the total capital will be 20 per cent. But if the rate of surplus-value is 100 per cent in the second case, then the rate of profit will be 80 per cent, since it will be the ratio of $100,000 to the total capital of $125,000. Hence the lower the organic composition, that is, the larger the ratio of variable capital to constant capital, the higher the rate of profit; the higher the rate of organic composition, that is, the higher the ratio of constant capital to variable capital, the lower the rate of profit.

Rate versus Mass of Profit

We have seen that in order to obtain relative surplus-value the proportion of constant capital to variable is constantly being increased and that this pace becomes accelerated with the accumulation and centralization of capital. How does it come about that the capitalist is so zealous to increase the rate of surplus-value and thereby diminish the rate of profit? Are not profits what he is after, that is, differences between investment and return, however they are composed or analyzed?

But what interests the capitalist is not the rate of profit but the amount of profit. If a greater investment of constant capital in proportion to variable is the only way to increase the ratio of surplus-value to variable capital, and that yields a higher sum of profits, it does not matter that the rate of profit on the total capital is diminished. For the capitalist is making more money, and that is the way to make it. Marxists argue that this alone vindicates their analysis for, on the assumptions of capitalist economics, how else is the contradiction reconciled?

Rate of Turnover

But we are only at the beginning of dilemmas. Before going on to the greatest of all we must notice a new variable in profits, and that is the rate of turnover. If a capital of $25,000 is divided into two sections, $20,000 constant and $5,000 variable and this variable capital is turned over twice a year, then the rate of surplus-value per annum is twice that of one turnover. The results have been incredible in some industries.

Engels cites a case known to him in Manchester, where he was engaged in business, in which a capital was 97½ per cent constant and 2½ per cent variable. The rate of surplus-value on the variable capital was as 3 to 2, or 150 per cent per turnover. The turnover took place eight times per annum, the surplus-value rate thus being 1200 per cent per annum. If the total capital was $100,000, of which only $2,500 was reserved for wages per turnover, the profit of the enterprise was twelve times $2,500, or $30,000, or 30 per cent per annum.

That such amazing rates of surplus-value are brought about by

turnover is not to be discredited merely because of the *Arabian Nights* appearance of the figures. For after all, Carnegies, Rockefellers, and Fords do start with a few thousands and run them into billions, and conservative rates of profit will not account for anything like that rate of increase. For the highly successful enterprise, in fact, almost unimaginable rates of profit are not exceptional. They must be the rule, else these companies would not so far have outstripped the others.

Three factors of profit complete the story. First, that profit is another name for surplus-value, in essence, and follows its laws; secondly, that it falls as a rate with the rise in the organic composition; and lastly, that it is increased by the speed of turnover.

Differing Rates of Profit Are Short-Lived

But everyone can see that this theory of differing rates of profit, though possibly true for certain short runs, or certain "bulges" in one trade, or for a temporary advantage due to monopoly or inventions, cannot be true of straight competitive enterprise in the long run. For if the profits of the Woolworth type of store with a high variable capital, that is, a large wages expenditure compared to fixed capital, were permanently high, and that of the steel business, which has an immense investment per labor used, were permanently low, capital would desert the steel business and go into the novelties business, and would so saturate the novelties business that profits would be slashed to the bone, and soon there would be no more money in that formerly prosperous trade than there would be in steel.

We shall later deal with another of the celebrated theories of Marx on this very tendency to slash the rate of profit (not the *mass* of profit), but for the moment let us ask of what use the Marxist theory is at all, if so glaring a contradiction can exist? Is the contradiction in the capitalist system or in Marx?

If the profits of capital are due to surplus-value, and if surplus-value is due only to labor-time devoted gratis to the capitalist, and if the theory of surplus-value is dependent on the theory of value itself—that value is the embodiment in commodities of socially necessary labor-time—and if the upshot of the whole business is that the rates of profit do not vary according to the foregoing for-

mulas, but are equalized by competition, then for what did we need the preceding Marxian theories?

Before studying the question to determine if there is a contradiction, let us first summarize the theory of Marx concerning this crucial point. For it is certain that there are two fundamental facts known to businessmen and economists alike—that in no two industries can the ratio of constant capital and wages capital possibly be similar, or even very comparable, and that the flow of money from one trade to another tends to equalize the rate of profit.

Marx presents his reply and synthesis of both factors. To anticipate one objection—that first he must have thought of his value theory and then was surprised by its unexpected results—we know, however, that the profit theory was worked out in 1865, the value theory, its basis, published complete in 1867. It is a matter of total theory, not of a later contradiction.

The Average Rate of Profit

The problem given: How can the rate of profit vary, rise or fall while the surplus-value rate remains the same? To isolate the question, we use one assumption: intensity of exploitation, that is, rate of surplus value and length of working day, are to be the same in several trades. We must examine the only variables in question: (*a*) their differing organic compositions; (*b*) their differing rates of turnover.

Comparison of Differing Capital Compositions

We take three industries with the same capitals, $100,000 each. One is in steel, the other leather, the third light jewelry work. The constant capitals are: for steel, $80,000; for leather, $70,000; jewelry $60,000. The variable or wages capital is: for steel $20,000; leather $30,000; jewelry $40,000. The three capitals as totals are identical, their organic compositions vary. All three have the same rates of surplus-value, say, 100 per cent. That means that their surplus-values are equal to their wages capital, hence for steel it is $20,000; leather $30,000; jewelry $40,000. These result in differing amounts of surplus-values for equal capitals.

But according to Marx's labor-time theory, the use-value of

constant capital is transferred into new products, although the value is not increased thereby. But their values are *preserved,* carried over. Therefore the total value of the products must be equal to the transferred constant capital and the new value added by variable capital and surplus-value. For steel, the product is worth $100,000 in capital plus $20,000 surplus-value, or $120,000; for leather $130,000; for jewelry $140,000. What happens now? Inequality still persists. For steel the rate of profit is on its $100,000 capital, 20 per cent; for leather 30 per cent; for jewelry 40 per cent.

The Effect of Divergence of Prices from Value

So far we have been speaking of the values of their products. Will their values equal their prices? If competition becomes the keenest where profits are largest how does that competition express itself? By cutting down prices. And so the industry that has the largest rate of profit, jewelry, will attract the most competition; leather will be untouched; and capital will desert steel and so lessen competition. By these means the selling prices of jewelry will be cut to reduce the rate of profit to the average rate of 30 per cent, that of leather will remain unchanged, and the steel industry, free of this transferred competition, can raise its prices 10 per cent and get the difference due to the fewness of offerings. Hence all profits will be equalized at 30 per cent. That is the average rate of profit.

Not that this equivalence takes place like the movements of mercury in two compensating thermometers. It takes place slowly, haltingly, and allows for the variations of business acumen in judging trends of price. But this is the social tendency, and that establishes the law of profits. The average rate of profit is independent of organic composition of capitals, the surplus-value rate is dependent on these organic compositions. ,

This equalization of the rate of profit takes place in *production,* not in the market, though its price differences are seen only in the market. For it is by the flow from one industry to another of capital used in production that the capitals finally equalize their profit rates. The exploitation of labor remains the same, for its mass is unaltered, as is the mass of total profit. It is the allocation of rates of profit between industries that is altered. In the

industries with a high ratio of constant to variable capital the mass of profit exceeds the mass of surplus-value, and where the variable capital is the larger proportion the mass of profit thus becomes lower than the mass of surplus-value.

The Price of Production

That is, in some industries prices are above value and in others below. The price of commodities (not their value) is thus determined by the cost of production plus the average profit, and this sum total we term the *price of production*.[1] Hence price is the expression not of exchange-value as merely the outward manifestation of value, but differs from that manifestation by the extent of surplus or deficit from value brougbt about by the varying costs of production plus average profits.

What does the law of value function as, under these conditions? The total sum of prices so realized, though, must equalize each other, and so the total value of commodities is their labor-value, neither more nor less. No matter how much capitalist competition equalizes, or monopoly prices distort profits, they must add up to the values embodied in the social total of production by the sum-total of labor-time expended in their production.

Quantity of Profit and Surplus-Value Socially Equal

We have seen that there was a difference between the rate of surplus-value and the rate of profit, but none between their quantities. The qualitative difference was due to the proportion of variable capital to total capital, but notwithstanding, there was no quantitative difference. Now we have seen that the total value of commodities is transformed into the varying prices of production.

Is there a similar disguise of quality, while retaining an economic identity? For price of production includes as one element cost of production, and this cost of production includes either the value of dead labor in the shape of means of production, or living labor and the new value it adds. Thus value and surplus-value are concealed in the idea of prices of production.

[1] The student should master this category, for it will recur more than any other in the critical section.

Masses of Profit Differ in Industries

But there is a difference and it consists in this: that as soon as an average rate of profit is established corresponding only to *total* capital invested, the profit and the surplus-value produced in any industry are no longer necessarily identical with the profits obtained by selling the products. Not only the rates of surplus-value and profits are different, but also their masses, or absolute quantities.

It is the quantity of surplus-value produced by the workers for the capitalists that is far more significant than that for any capitalist. For the capitalist in any given industry, the importance of the surplus-value produced therein plays a decisive part in regulating the average profit (and this part in turn depends on the proportion which his investment bears to the total industry with which it is compared).

But the deviation of the masses of profit and surplus-value, as well as their rates, from each other, now completely obscures from the capitalist the social origin of his profit, that is its basis in class relationships. By values being transfigured commercially into prices of production, there is no basis for a *direct* perception of the value basis of commodities, labor-time. It is for that reason that its exposition appears so intricate, and that Marxist economy seems to bear no resemblance to everyday existence.

The Marxians contend that it is only on the basis of value and surplus-value as labor contributions that any conversion into prices of production can be understood. But the anti-Marxians have concentrated all their fire on what they term the "great contradiction." We are advancing things a little in discussing this controversy, but some primary phases of it must be given right here. It was considered a "theoretical suicide" by the Italian economist, Loria,[2] and the doughtiest enemy of Marx's theories, the Austrian Finance Minister, Dr. Böhm-Bawerk, entitled his critique of it *Karl Marx and the End of His System*.

The "Great Contradiction"?

Marx has said in one place that exchange-value is the representative of labor-time, at the other, that it disregards labor-time, due

[2] In 1895 in the Italian literary magazine *Nuova Antologia*.

to competition equalizing rates of profit, and that commodities sell at the *price of production*. You cannot have both: the theory is finished. Scores of economics manuals do not even re-examine the question; for them it is decided. As the French say, in this matter Marx decidedly has a bad press.

Marxist Concordance

Marx distinguishes value from price at the outset of his initial study of value. He states that while value determines the general level of magnitude of prices—that is, if more labor-time is incorporated into a commodity its price will tend to reflect that value—nevertheless the blindness of production is also a feature of capitalist economy, that it has to explore the market to discover the relationships of values.

That the laws of the market tend to conform to the labor-time of production is an absolute, but the oscillations both above and below value are considerable, and prices are always tending towards values but are rarely (almost never, in fact), at values. So the first born of the dilemma is blunted.

Marx holds that value is the *governing influence,* establishes a *reference* for prices, limits the time in which extreme fluctuations from value can possibly persist, and thus is always operative.

But it is also to be noted that Marx used the expression *socially* necessary labor-time. He left out of consideration wasted time, so that time itself was not his only referent. Also, he spoke of social labor-time, meaning the total labor-time conceived of as an abstract mass, of which each section of labor-time is an equally divisible part.

Commodities sell exactly at the equivalence of social labor-time; *a commodity* need not, though it tends to move in the orbit of average social labor-time.

Under capitalism value is revealed only through the fluctuations of the market. In a village, in the Middle Ages, though, the then mode of value was directly reflected in exchange. There was nothing to disturb its manifestation. These capitalist disturbances do not annul the law of value; they illustrate its working in a society torn by class divisions, producing for profit, and using an unplanned market to probe unmeasured demand.

Marxian Method Ignored by Critics

Then again, the critics have neglected Marx's convention. He states that he assumes that goods exchange for their value in order that the laws of value may be ascertained free from disturbance. He also states that he is criticizing a real society in which, in fact, disturbances exist. He promises to leave the study of capitalist production as a motionless model for a study of it in all its rich complexity, after the first volume.[8]

But that his deductions were carried out by a series of abstractions is insisted upon by him. Nowhere does he state that their appearance in society is the same as their essence as made known by economic study. Thus Marx points out that *were* it true that goods sell at value, they must contain surplus-value, they must yield a profit.

He does not say they do, be says even *if* they do. The reason back of his assumption was the uncovering of the relations that are hidden. What confirms it is that even when prices are converted from social-value into prices of production this is not true of labor-power.

Labor-Power Confirms the Marxian Analysis

That commodity cannot be so obscured in the market, for it is basic to all commodity values whatever. It is a Marxian exhibit without trimmings. The reason for labor-power's being autonomous in its action is that it is not produced by capitalists, but out of the means of subsistence of the workers. This is the Marxist Rock of Gibraltar.

Let us follow the enemies gathered against that fortress. The Marxians say, "We have equalized rates of profit. But how? By equalizing rates of surplus-value. We got these ultimately from the theory of value. As a totality of social production you have a sum of values and these equal the sum of your prices of production. The prices of production explain the price of specific parts of the social total, but not of tbe total itself. They are a mode of division of value created by capitalist competition but they are only comprehensible as parts of Marxian value itself."

[8] The theory of profit is formulated in the third volume of *Capital.*

Law of Value the Referent

You have an average profit. But average of what? If it has no referent why is it $50,000,000 and not a trillion, why 10 per cent and not 50,000 per cent? The average is an average of something that limits it. What limits it? If you say it is an average of total surplus-value you have something, for then you are ultimately back to something outside of exchange, a measurable physical thing, total labor-time.[4]

It is true (to illustrate this total analysis), say, that price of production deviates from the proper fraction of total value that a commodity has. Good. Now let the labor-time required to produce that commodity go down by nine-tenths. Will your price of production still maintain its level? It can be produced in a tenth of the time. Will it not be altered in all its relationships to other commodities? What sought the level, the prices of production? Yes. What determined the level? Socially necessary labor-time to reproduce the goods.

Marx sums up: The social total value of commodities regulates total surplus-value and the level of average profit and rate of profit (as a general law), and so it follows that the law of value regulates prices of production. In order to counter Marx, the critics bring up the theory that prices are determined by costs of production, not price of production, which is cost plus profit. So according to them profit plays no part in prices at all. Then what determines profits?

Cost Theories an Endless Regression

The theory that costs are final cannot be sustained, for one must ask what determines costs of production? Costs of what enters into goods? Where do we stop? The Marxian holds that one must stop with labor, for labor is the living element of production.

We shall later go on to the bourgeois economists' philosophy of subjective utilities as a psychological or inward way of replying to the Marxist physical or outward way of projecting the question of

[4] What especially distinguishes Marx in his understanding that no science of political economy can exist by itself, it must be referred back to the physical world of which it is a social segment.

value. For the Marxian there is no contradiction between the law of value and the average rate of profit.

There is a contradiction, says Marx, between the manifestation of value and value itself, but that is of the essence of a system whose class divisions make contradictions its normal form of action. The economic critics of Marxist theory, say its defenders, blame the doctor for the disease.

22

Wages, the Price of Labor-Power

Wages are defined by most political economists as the payment for the services of the worker in production. Labor is classed as a factor in production and its value is compensated in money and this money expression is termed wages. The Marxist political economy stands alone in considering this definition not merely wrong but the exact reverse of the truth.

Labor Has No Value

For Marx labor has no value. It is the stuff of value; all value rises from it. The cause of value can have no value. Since Marx defines value as merely another expression for the average socially necessary labor-time in a commodity, it follows by strict logic that labor itself cannot have that property which it alone gives to things, that quality of itself which they embody. It is best to justify this contention, for captious crities have considered it a nice scholastic distinction. But that it surely is not. Once the Marxian definition of value is postulated, then there is no escape from the conclusion that the expression "value of labor" is nonsense. Gravitational attraction is the definition of weight; who then can speak of the weight of gravity?

Wages Are Not a Payment for Labor

In the expression the "value of labor," the idea of value is not merely completely obscured, it is actully inverted. Why then is this expression employed? Because, as Marx puts it deftly, in society all things are classified by the manner in which they are presented.

We see that the laborer receives every Saturday a certain sum of money and we know he would not have received it unless he had worked. He is paid for that part of the labor which is compensated, and he is not paid for that part of his labor which the capitalist has gratis, but both are under the *form* of one payment.

Hence the payment of money wages creates the impression that it is a full acquittance of the services of labor and wages are stated to be the price of labor. The form of this social appearance is thus the reverse of what it really is. But Marxian political economy takes the sleight-of-hand called the payment of wages and says, this is how the magician, the capitalist, pays, and the way in which he pays is the substance of an economic relation. That is the way one class pays another, and the reason for this form of payment is that it counterfeits the production relations so that, like bad money, it passes for something it is not. For the Marxist it is a necessity that the payment of labor appear as a compensation of a full equivalent, although actually one party, the capitalist, has received the gift of working time above the full value of the labor-power he bought.

Wages are the price paid for laboring-power or, more shortly, labor-power. That is, they are the price paid for that part of the day in which the laboring-power is reproduced. The capitalist buys laboring-power at a price equivalent only to this quantity of labor-power (its commodity-value). He receives a quantity of labor-power far above that, but the price of the section of labor-power he pays for, and only that part, is called *wages*.

It is a payment in full for the value of labor-power, yes, because the value of that labor-power is, like that of any other commodity, measured by the time it would take to reproduce itself. But it is not a payment for labor, for that cannot be bought or sold. Why? Because labor is not a commodity. Labor-power is. As this seems to be leading us into the full thicket of split hairs, let us retrace the logical path of Marxian thought.

Disguised Payments

In the case of a slave we see that all he does is unpaid for, but he receives some pay in the shape of cornmeal, overalls, a cabin. Paid and unpaid labor appear to be unpaid. In the case of the corvée system where labor-time is allocated and seen, so much to the serf, so much to the noble, there are no illusions. The labor given the aristocrat is clearly the surplus over and above what the serf must produce for himself on his own plot of land. But the payment of wages, as a result of an equal contract, is like the disguise of slavery, but in reverse. For there unpaid labor appears as paid.

The Marxists do not view this question as academic. To them the idea that labor has a value which is paid by wages is the cause of such ideas as that labor is entitled to a "fair" share of production and that labor ought to have a larger "share"; or the more derivative notion that the trouble socially is in distribution, and labor should "share" more in this distribution. Such ideas are based on the fact that wages reward labor's part in production, and that it is a mere question of proportion that is involved and not of nature. For the Marxian this is due to the disguise in the wages payment of the fact that it is a mere compensation for the sale of a laboring-power, and that it is an equivalent of its full value, but evades the question of the surplus-value.

Since labor has no value but gives everything its value, and since it sells a part of its powers of work for a given space of time as a commodity, as an object of purchase and sale, its conversion into a commodity makes it subject to the law of value, that is, equates its value to labor-time required to reproduce it. But commodities sell at their value, that is, for the labor-time incorporated in them. The capitalist makes a profit by selling commodities *at their value* (not above as is commonly thought), and the reason he can do so is that he has paid wages also for the full value of another *commodity*, labor-power, but he has paid absolutely nothing for the time over and above its value, and that time is represented by surplus-value. Surplus-value is a part of value produced; it is not abstracted from labor-power value bought. It is a surplus, over and above that value. This gives the setting of wages, by explaining (*a*) value, (*b*) labor's part in its creation, (*c*) commodities, (*d*) labor-power as a commodity, (*e*) its payment in the form of wages, (*f*) why that payment is the reverse of reality, and (*g*) the relation of all values to profits.

Practical Application of the Wages Theory

Has this a practical application? Take one common question. It is asked, if wages are raised, then the price of commodities is raised and then the cost of living goes up, and this cancels the benefit to labor, and so the struggle for high wages is deceit, since it cancels out its benefits in higher prices. This is based on what assump-

tion? That labor is paid its value, that when it receives more money its value is increased, and that that value in turn is reflected in its products.

But Marx holds that if wages are increased it means that labor-power commands a higher *price*, labor gives less time gratis to the capitalist and, since labor-power is a commodity, it is only to the extent that this increased price of labor-power is reflected in an advance of the price of its reproduction, that is, in necessities, that the rise in wages is counteracted.

Social Implications of Identification of Labor-Power

As an illustration: let us say that wages are one billion dollars. The workers increase 10 per cent, they are paid one billion one hundred million dollars. If labor had a value which was paid for as a factor of production, then the cost of living should gain by a hundred million dollars. But if labor-power is a commodity, distinct from labor, then only to the extent that it must be reproduced (that is, the sustenance of the worker) will there be a gain in its *value*. The remainder it takes out of surplus-value.

And, if the composition of capital entering into production is three constant for one variable, and the constant capital is merely transferred into use-value, not new values, it would follow that the increase in value of labor-power is slight, although its gain in *wages* is high.

If labor could sell its labor-power so as practically to extinguish surplus-labor, that would mean that its value would rise to the extent of the increased labor-time required to reproduce it, but over and above that increase in value it would have a net benefit, since it would take the difference *above value*, which is exactly what the capitalist takes today.

Hence it pays for the worker to fight for higher wages, since he really fights to supplant the capitalist in obtaining a surplus above the value of his laboring-power. It will be seen that only by the Marxist method of isolating the absolutely different things, labor and labor-power, can the case of the workers be made *intelligible*. Otherwise the vicious circle theory would have to be granted as against wages increases.

It is apparent, then, that as against both distribution and cost of living theories, the distinction between labor and the value of labor-power is the fighting weapon of Marxist science.

On the Marxian assumptions, too, we can point out that labor has no value because that would be a tautological expression. For if value is the objective form of social labor, and the quantity of value is measured by quantity of labor, how is the value of twelve hours' time to be determined? By twelve hours? Where then would science be? To advance the analysis one point further Marx was compelled to discover the commodity nature of the labor-power itself so that the absurdity of such a repetition was eliminated. Labor exists prior to selling its powers.

There is a social, rather a historical, aspect that is all-important. If money wages is the payment for the value of living labor—that is, if the equivalent of dead labor equals living labor—then the price of labor-power would be the price of its products. Where then is the profit? Out of what would capital arise and reproduce? But if labor sells its *time* to capital the relation forbids equivalence. There can, by this proof too, be no sense to the idea of a value of labor.

Elimination of Exchange of Forms Theory

It might be argued that there is an exchange of forms, the substance of dead labor against the substance of living labor; dead and living being equated as shapes, not quantities. But a dead commodity, dead labor, has only the value that living labor bestows. For example, a commodity takes six hours to make. It is on the market. A process is developed in which it takes three hours to make. It falls to half the value. It is not the dead labor that gave it value, for it still has that and yet it is worth half. Its value is made known by the reproduction of it that is being effected or can be effected by living labor. The exchange of form is nonsense, for it is always living labor that is the unique author of value. It is a one-way street.

The wages relation comes about not when capital faces labor, but when the capitalist, or the capitalistic company, trades with the laborer. These real people buy and sell. The capitalist does not conceive of the laborer except as the seller of a certain amount of

time in which he will use his powers. As soon as these powers are sold for so many hours they belong to the buyer: the laborer no longer has them, for he has sold them. Labor is the substance, true, of these powers; labor is the immanent measure of value, true; but it itself has no value. (The reason why wages are considered to be a payment for the "value of labor" can also be attributed to biblical phrases that are the living tradition of the people, such as "the wages of sin is death.")

Why the Labor Theory of Value is Circular

Wages must be explained by some inner connection. Nothing is less informative than to state that "supply and demand" determines the level of wages. Here as everywhere the phrase "supply and demand" is a cover for our refusal to state what causes a certain supply to emerge and what governs the limits of demand. There is a real function of supply and demand and that is to explain the temporary oscillations around a given level. But what explains the level itself? If demand and supply balance there is no movement of prices. It is the price of labor-power when supply and demand are in equilibrium that remains to be explained.

Classical political economy tackled the laws of wages. Adam Smith is a good example. The "value of labor," he states, is determined by the cost of its necessaries. And these? By the cost of labor. We have not advanced one step.

So long as no distinction is made between labor, cause of value, and labor-power, a commodity expressed as value, this circle can never be broken. The so-called labor theory of value has been showered with contumely by modern economists. But their scorn is not that of analysis. It is based on a wholly different approach, a subjective one, mostly. Marx gave the objective reason for its shortcomings.

Conservative Function of the Wages Form

How does the price of labor-power (the money expression of its value) become transformed into wages? By the form of contract, whether written or in the presumptions of a code of laws. Why? Because it enables the unpaid labor to appear as paid. Why is a

contract arranged to show the opposite of what happened? Because it gives three illusions in one flash, those of equality, liberty, and fair play.

It enables men like the late president of Harvard, Charles W. Eliot, to refer to the "scab" as a hero of liberty, a freeborn American who wants to sell his labor *for what is is worth,* with no man to say him nay. It enabled the late Samuel Gompers to declare that the object of trades unionism was "A fair day's wages for a fair day's work." According to Marx, then, it stands the relation on its head, which is the unconscious social object of class society.

Further, we know from the study of value that use-value and exchange-value are not commensurable. But by the contract relation the expression "value of labor" seems to be the same as any other object bought and sold, such as "value of wheat."

This assimilation of a use- and an exchange-value is subtle and so obstinate that it lingers even after hours of wearisome explanation as to the simplicity of the illusion. Since no one pays for wheat more than its worth, this seems also to be true of labor, so that wages appear entirely analogous with goods, and the unique nature of this surplus-value-producing commodity is totally obscure. It took hundreds of years of spade work to recover this buried treasure of analysis.

Finally, the capitalist appears to be paying for a use-value, tailoring or bricklaying, in the way one pays for canned salmon as a use-value. That labor has a universal value-creating element and that this is really what is paid for (not use) [1] is hard to grasp. According to Marx, it is upon this rock of confusion that bourgeois political economy is wrecked.

The capitalist himself looks upon the purchase of labor-power as he does on that of cotton. He buys both at their value and he sells them for more because he is "smart." He attributes his profits to guile and cunning, or to foresight, but to him all purchases are turned into profit in the same economic form. He cannot tell the difference. The appearance of buying and selling is enough for him.

Individual differences of pay, too, confuse the issue. The average social labor is not seen, the compounding of simple labor in the

[1] Use is concrete labor: Abstract labor is the source of value.

form of skilled labor is not seen.[2] The act of purchase and sale is visible; of analysis, invisible.

For all that, liberal economists vaguely sense what is wrong. They are like the liberals in geography who, after seeing that a ship's top first appeared on the horizon, granted that the earth might not be flat but only corrugated!

Time Wages

Only those characteristics pertinent to this *mode* of payment concern political economy. It should be measured by the working hours, since payment by day, week, or month may conceal great variations in time worked. If hours are increased, although wages are the same per week they have really been cut. If, however, hours are increased from forty to fifty a week and wages advanced ten per cent, then the increase of money wages covers a decline in the value of labor-power. Wages have *risen,* though, but that does not mean that the compensation of labor has risen; it has *declined.* The hourly unit makes these differences easy to measure.

On the other hand, if the working day is cut to four hours from eight, by a partial shut-down in the factory, the compensation of labor is the same per hour but money wages are halved. But as long as the rate of surplus-value is the same, it follows that the worker is fearfully injured. For if in four hours he reproduced his keep, giving four hours to his employer, if he now works for four hours or less, the tendency is for him to work for less than value, since his employer would still seek a profit. This hourly basis is often substituted in "short time" for just this purpose, since it partly does away with the assumptions of weekly wages, viz., that a certain number of minimum hours are required for sustenance.

Another device is that in which the normal hour-payments are depressed below their value, so that time-and-a-half for overtime must be worked in order to produce the value. Here the employer

[2] Wages may be either nominal or real. Nominal wages are expressed as so many dollars; real wages represent what the money will buy, that is, into what commodities it can be transformed. The nominal wage is the first step in transforming labor-power into an equivalent (money), but the process is not completed except as real wages, as a real command over the necessaries of life.

appears to be liberal, when in fact he is obtaining a larger surplus-value. Payment by the hour is often made low so as to lengthen the working day. The lower the price of labor, no matter how paid, the longer the day required to replace its labor-power. Overtime, too, tends to keep fewer workers on the job, and so by increasing the numbers unemployed diminishes the bargaining power of labor.

Piece Wages [3]

Wages by time is the converted form of the price of labor-power, but wages by the piece is still further off, for it is a conversion of wages by time. It seems otherwise. It seems as if labor is paid for its use-values, that is, not for time devoted to the work, but for the specific job turned out. Yet in one and the same shop, and for the same kind of work, the two forms of wages exist side by side.

The number of pieces turned out in a day's average work must remain the basis of calculation. If in an eight-hour day forty blouses are finished, and this day is paid for by $3.20, then in piecework the basis will be eight cents per blouse. Time is still the referent. The surplus-value in production measured by time is carried over into the basis of piece wages. The piece wages are not determined by individual productivity; they too are determined by average social labor; but the amounts paid are as so many multiples of units produced in that time.

But as a basis for cheating, piece wages are superior. The job is paid for only if "right." Superintendence is reduced, because only inspection of the product is required. Since superintendence is less needed, the chance for homework or "sweating" is increased. It permits of subletting labor; in fact, in the piecework trades of New York (in men's trousers, for example), the contracting system became general. The laborer under the piece system is impelled to overwork himself, so as to turn out the maximum number of pieces to increase his reward. The limitations of hours are swept away.[4]

[3] Sidney Webb says that Marx's study of piece wages was the first ever made.

[4] A fictional study of piecework home sweating unsurpassed for graphic qualities is the portrait of "Nigger's" home in Michael Gold's *Jews Without Money,* Chapter XIX.

So that he ruins his eyesight, his health, longevity, everything, to make more for his family.

He really sells his labor for less than it is worth, for he sells a few years of his life as be sells his products. He cannot escape, for even if be knows this he is helpless. But unlike the time worker he has an actual monetary interest in increasing length of the working day and intensity of labor. The advantage to the employers is manifest.[5]

In piece wages the differences of laborers are rewarded more diversely. But since the time basis is paramount, the *average* pay of all the laborers will be the same as on a time basis. The proportion between wages and surplus-value remains unaltered. As the workers emulate each other and compete with each other, their unit payments are diminished and so this system of raising individual wages operates, in the end, to lower average wages. No matter what they do, the workers must return to the necessary reproduction wages to maintain their average labor-power. Piecework does lead to social conflicts, though, for it accustoms the worker to calculate the goods delivered and their price and he is more ready to contest the affirmations of the employer and his accountants.

National Difference in Wages

In calculating national differences in wages we must consider:

(*a*) Price and extent of necessaries of life (as historically developed).

(*b*) Cost of training of the laborers.

(*c*) Familial basis, that is, women, child, and aged labor (whether included in labor-supply).

(*d*) Productiveness of labor, as to intensity and time worked.

One must reduce the various working days of several nations to one average working day, and then translate, for once, the time

[5] Since Marx's time, two systems of piecework, the Halsey and the Rowan, have been introduced, as well as others, called *premium bonus* systems. The detailed treatment is found in Cole's *Payment of Wages*. Many of these utilize collective contracts where the whole factory is paid by piece production, instead of only individual workers.

wages into piece wages, because only a piece wage measures both productiveness and intensity of labor, where the social average time has such wholly differing historic bases.

The labor that is most intensive and productive, as in the United States, produces more value in less time, and this increased value is expressed as more money: the value of labor-power is high, and also the money expression of that value is high.

These differences between nations indicate that the same quantity of commodities produced in different countries at the same time, have unequal international values. But the higher value of labor-power in the more advanced countries may yet be relatively lower than in the backward countries, when compared to surplus-value and to the means of subsistence at the disposal of the laborer.

The high value of labor-power should be correlated with a country's total commodities (in which ease America and Great Britain are immensely rich), or with the relative participation of labor-power in the fruits of total production, in which ease the labor of the richest countries may be the cheapest. It is well known that the unit cost of goods in America is lower than in cheap-labor China, and possibly than in Japan. This has long been a Free-Trade axiom; its basis is given in the equations of surplus-value.

23

The Accumulation of Capital

The theory of the accumulation of capital is the crown of the Marxist economic state. Among its courtiers are found the distinguishing features that have made Marxian thought common property of the Socialist movements everywhere.

The concentration of capital, the tendency toward monopoly, the generation of ever more acute crises (culminating in an endemic general crisis), the increase of finance imperialism and finance capitalism, the relative and absolute impoverishment of the working class, the colonial economy, the frenzied search for markets, the drive toward militarism and war, the extinction of the middle class as owners and controllers of the means of production and their transformation into a petty-officer caste of the monopolists, the immense power of monopolies which seek to create and maintain artificial price structures that contradict competition but prove even more deforming, the "scissors" between industrial and agricultural prices, the emergence of contradictions that are insoluble in terms of the capitalist system, the greater, more naked, domination of the government as an organ of capital, the cross-currents of class resistance led by the proletariat—these and countless other actors in the stark tragedy of Capitalism stalk across the Marxist theater of accumulation.

Up to now, the system of capitalism has been treated under an artificial light. It has been assumed that exchange and wages, etc., are pure and theoretically valid; now the curtain is pulled aside, its two-dimensional beauties no longer suffice; the movement and growth of the living system must be revealed.

Until this study of accumulation it has been useful to speak of an isolated capitalist and selected laborers. But we have not considered the relations of labor and capital in the flow of history, in the capitalist system as it shows its dynamic qualities. Not that the previous

treatment has been static. On the contrary, it has been shown to be a specific historic situation in a total process of production. But it has not given the *movement* of wages, or surplus-value, of reinvestment (accumulation), nor (this is later) of circulation, of disintegration.

In his chapters on accumulation Marx moves from the mere exploitation of the worker—that is, the use of some of his labor-power gratis—to appropriation, to the effort to obtain labor *below* its value. He shows, too, that the surplus-value does not remain only with the capitalist who exploits. For there are rent and interest, and neither of these come directly from the worker, that is, not in the sphere of production. And there are taxes, and other secondary divisions of the system in motion.

The Circulation of Capital

Money is converted into means of production and buys labor-power in the sphere of circulation; that is, these indispensable factors of production must be bought in the market. The sphere of production is also done with when the articles—or commodities, rather—have been produced. They enter the sphere of circulation again, but are now worth more than their component parts. For they contain surplus-value, from which comes profits. These products are sold, realized as money. This money is afresh converted into capital and so it proceeds forever. The turnover of a value into capital and its utilization to produce new value and surplus-value for a new turnover is the *circulation of capital.* Not all the profit is reinvested but the greatest part of it must be, if the system is to live.

The capitalist is by no means the ultimate owner of this surplus-value. It may not be he who reinvests that money but his landlord or his banker who take part of that surplus-value from him for the "service" of land monopoly, or the loans of money. He may have to part with a section of it in order to sell it to an ultimate consumer, and the man who intervenes between the producing or industrial capitalist and the consumer is the merchant.

But for the purposes of a study of accumulation the owner of surplus-value is the reinvestor. Or, let us say, he represents all the

participants in the surplus-value. That means that we study accumulation only from the viewpoint of production, in order to build a foundation for a study of it as a totality later on.

The Simple Reproduction of Capital

The conditions of production are also those of reproduction. A part of society's products must be constantly reconverted into means of production, or the elements of new products. The instruments of labor have to be replaced, raw materials grown again, mined further, plants maintained and extended, and for these purposes a part of production must be set apart.

These articles are not destined to be consumed; they are *producers' goods*. By that we mean they are destined to be consumed in production but not in individual consumption. And as production is capitalistic, so must reproduction be. As the seed is destined to produce more and more crops containing seed, so is the endless renewal of capital.

If the revenue of capital is merely withdrawn for consumption by the capitalist, then only a simple reproduction of capital takes place. That is, he has $100,000 in capital, which makes $10,000 a year net, after the capital is intact. The capitalist spends the $10,000. He has the $100,000 again to purchase means of production and labor-power, but no more. He extracts a profit but does not expand his capital.

But the true capitalist does not do this. He makes $10,000, spends $4,000, and reinvests $6,000. Then he operates with $106,000, and if this continues for a long period he is a great capitalist indeed, and employs much more labor and uses more means of production than ever before.

The laborer is paid after he does his work and so provides a constant fund for his own payment, but only after he has produced a surplus-value for that privilege. Labor provides the variable capital. That is, it is labor that provides the only capital that creates a new value. Its employments last as long as it creates that variable capital. What flows back to the laborer in wages is a part only of the product that he has constantly *reproduced*.

The money payment, by which it seems that the capitalist pays him, is merely the worker's own fund transformed into money.

The laborer produces commodities, and after doing so receives order-notes called money, with which he buys back fewer commodities than he produced.[1] The product has a commodity form but, as we saw in the study of exchange, the commodity takes a money form. The process of commodity production is thus masked.

Let us see what happens even in simple reproduction. A capital of $100,000 produces $20,000 a year net, all of which is consumed by the capitalist. At the end of five years he has consumed $100,000 in surplus-value. He has $100,000 for his capital is intact; it is merely the revenue he has consumed. But is this so? The $100,000 capital he has now has been provided by the surplus-value of five years; it is he who has eaten up the original capital. For if he had not extracted surplus-value he would have had nothing left.

So it is the workers who have supplied him with everything he has, even if we assume that by some mutation of the laws of history and nature he originally obtained his $100,000 by his own productive labor. It is the process of capital reproduction that creates all actual capital and does so by labor's provision of surplus-value.

That capitalist thinking is the exact contrary of fact is normal, according to Marx, because every capitalist thinks of interest on his money as natural, and when, as in the above case, the amount of capital is unchanged, he cannot conceive that the same amount does not imply a wholly new *creation.*

So it is with all capitalists. When they have consumed the amount of their investment, all their *present* capital comes from the labor they have employed with that *original* capital.

All Capital Is Converted Surplus-Value

Thus, apart from origins, the mere continuity of the process of production, that is, *simple reproduction, converts every capital into capitalized surplus-value.*

The process of production converts all material wealth into capital for the moneyed men, but the laborer quits the process as he

[1] It is often said the capitalist advances the wages because, although labor has produced goods, the products are not as yet sold. But everyone knows that banks habitually advance on goods in process or in stock; therefore they have exchange-value.

entered it. He is a source of wealth but has no means of making that wealth his own. His labor-power, sold by him, is alienated during production, in the shape of commodities which the capitalist sells. The laborer constantly produces material wealth, but in the form of capital. An outside power exploits him and controls him. The capitalist purchases labor-power, which is separated, by that sale, from the commodities it produces and by which it could be realized as value. The laborer is produced and reproduced only as a wage-laborer and never as anything more.[2]

Consumption by the workers serves as a reconversion of the means of subsistence given by capital for the use of labor-power, into fresh labor-power, which is further put at the disposal of capital. The means of subsistence of the worker, from the capitalist's view-point, is a factor in the production and reproduction of capital.

That the worker enjoys his beef stew is not to the point. So does the donkey enjoy his lettuce, but no one would give it to him unless he were enabled thereby to carry loads. The maintenance and reproduction of the workers, as mere sellers of labor-power, is a necessity for the perpetuation of capitalism. The capitalist thus invests in means of production and also, through the purchase of labor-power, in means of subsistence, and both are factors in the continued process of production which reproduces capitalism. He kills two birds with one stone.

Productive and Unproductive Consumption

For this reason, political economists have held that only that part of labor's individual consumption that can be converted into further labor is productive. Anything beyond is unproductive consumption. Both Malthus and Ricardo state nakedly that if the accumulation of capital were to cause a rise of wages and thus lead to more consumption by the workers without an increased use of their labor-power by capital the additional capital provided them would have been unproductively consumed.

[2] Note the phrase "only as a wage-laborer." This means in his relation to capital as a worker. Naturally, within the working class, there are those who save little sums and become self-employers, while other self-employers sink back into workers. It is workers, as a class, confronting capitalists, of whom Marx speaks.

As Marx points out, this is the contrary of truth. The consumption of the laborer is unproductive for himself, for it only reproduces him as a needy fellow who must continuously sell his labor-power to others. It is productive only to the capitalist and to the government.

Thus the worker, even when not engaged in production, is an appendage of capital like the machinery in the factory. It is essential that the nourishment of the workers be so costly, compared to their wages, that necessarily they can never accumulate capital. Their product must rest forever with the capitalists.

> Note: They are permitted small savings, but as a class can never utilize these as capital. And for the few workers that escape into the employing class, sections of farmers and small shopkeepers, etc., become workers. The class relations as a totality remain, whatever the change in constituents.

The reproduction of the workers carries with it the accumulation of skill handed down from one generation of workers to the next. That the capitalists regard this skill, for which they paid nothing, as their property, is seen in crises. For example, in England, during the American Civil War, the government kept the spinning operatives and weavers on a pauper dole rather than permit their emigration to the United States. Thus the government kept their skill as a reserve for the capitalists, to be used when the import of raw cotton was resumed from the Southern states of America.

From the foregoing it is clear that the theory that labor freely sells its labor-power in a contract is merely formal. Actually the process of capitalist reproduction hurls the worker into the market as a seller for subsistence only, and with his product he gives another man the means with which to buy it. The worker provides his own chains. But as his sale of his labor-power is renewed periodically, as he often changes his employers, and as the price of his labor-power does oscillate around a level but still somewhat varies, the illusion of liberty is well maintained. Capitalism not only reproduces commodities and surplus-value, but it reproduces class relations as well.

Capitalist Production on an Increasing Scale. Production of Commodities Transformed into Capitalist Appropriation

The employment of surplus-value as capital—its reconversion into capital, that is—is called the accumulation of capital. It differs from simple reproduction, for not merely is the capital maintained but it is enlarged. This, and not simple reproduction, is the true movement of capital.

A cotton spinner invests $50,000, of which $40,000 is in cotton, machinery, etc., and $10,000 in wages. He produces 240,000 yarns with a value of $60,000. The rate of surplus-value is 100 per cent. Since 200,000 yarns represent five-sixths of 240,000, they reproduce the constant and variable capital. 40,000 yarns represent the surplus-value. They are worth $10,000. The $10,000 does not appear to be surplus-value; it looks like any other money. One has to know how it came about to recognize it.

This surplus-value of $10,000 is reinvested in the same proportions as the original capital, $8,000 for cotton and machinery and $2,000 for wages. For this $2,000 the capitalist requires one-fifth more spinners. The new capital of $2,000 in its turn brings a new surplus-value of $400. The capital is advanced as money, but the surplus-value is in the form of commodities that have to be sold so as to realize money.

But since the capitalist buys all his commodities in the market and sells his commodities there, and so do all the other capitalists, the mere transfer of these commodities cannot add to the total production of wealth. Hence the capitalist use of the total annual product must depend on the composition of that product, and not on circulation. To be more explicit: The annual production must recover the original capital. There is also a surplus, and of what does it consist? Is it made of things that satisfy the wants of the capitalists, which they consume? No, for in that case one would have only a simple reproduction of capital but not an increased capital.

Since the increased capital must serve to produce more surplus-value it can consist only of a means of production (constant capital) and means of subsistence for the workers (variable capital). Surplus-value, then, is convertible into additional capital only because

it already is made up of the potential material elements of new capital, although it is realized in the form of money. But we are speaking of its substance.

The only apparent exception would be the export trade, in which a country sends out articles of luxury or superfluity and imports in exchange means of production and subsistence. (That will be considered in the theory of the circulation of capital.)

The Spiral of Accumulation

With his increased capital the employer has three alternatives: to use his labor more intensively, to use it for longer hours, or to hire new help. Once the new capital acquires new laborers it can go on forever not in a circle of simple reproduction but, as Sismondi [8] well put it, in a spiral.

It does not matter from the standpoint of theory whether it is the same capitalist who uses the surplus or whether he invests it by way of another. We have dealt only with that section of surplus-value that is reinvested, that is, the small part used by employers for their consumption (consumption of personal wants) is not here in question.

It is clear that the $10,000 surplus capital that was reinvested was not produced by anyone but the workers. It is unpaid labor, nothing else. With that surplus the capitalist buys labor-power, that is, he exchanges the unpaid labor of his workers as the equivalent for the labor-power of the new workers.

Surplus-value arose out of capital and fresh capital arises from that surplus-value. The more the capitalist accumulates, the more he is enabled to accumulate. But now this process of the renewal of the laborer selling his labor-power and the capitalist buying it is increasingly performed with the unpaid labor of previous production, and this results in a transformation of all the laws of private property into their very opposite.

The Transformation of Capitalist Profit into Appropriation

There is no longer any exchange of equivalents. When a capitalist buys with his own money (we are assuming that he has ac-

[8] *Nouveaux Principes d'Économie Politique* (Paris, 1819).

quired it originally) he buys with an equivalent. Now he buys with appropriated labor that he acquired without an equivalent. Further, he no longer requires the worker to reproduce the capital; he wants him to produce a new surplus for further purchase of labor-power. Under the form of purchase of labor-power now there goes on appropriation, without equivalent, by the capitalist, of the materialized results of former labor which he exchanges for a still greater quantity of living labor. The separation of property from labor has become the consequence of the laws of commodity production whereby a transaction beginning as the exchange of equivalents, by its very operation has become the opposite, pure appropriation.

It is best to recapitulate, however detailed, the stages of process of production to illustrate this vital point. They are:

1. A contracting party sells labor-power; the other buys it.

2. The seller receives the exchange-value of his commodity, labor-power.

3. The buyer obtains its use-value, he consumes it in production.

4. The buyer converts his means of production, through this use-value, into a new product belonging to him.

5. The value of this product includes the consumed means of production and use-value.

6. Labor could not consume (that is, use) these means of production without transferring their use-value into a new product.

7. The labor adds new value, and labor alone does this, as all other value is merely preserved, not added.

8. Labor has, however, sold its labor-power for value, and it produces more than that value.

9. The law of exchange was satisfied—the laborer sold at value, the capitalist bought at value; he consumed the labor-power sold to him, as is the right of every buyer of consumable goods.

10. Money was thus transformed into more money, that is, into capital, by a strict adherence to the laws of exchange.

11. Now the product of the laborer belongs to the capitalist.

12. The value of the product comprises a surplus-value which cost the laborer his labor-power but cost the capitalist nothing.

13. With the means of subsistence he has purchased, the laborer is able to offer himself once more as a seller of labor-power.

14. Up to this point the process of money becoming capital is merely repeated and nothing more.

15. With the surplus-value the capitalist acquires new means of production and further employs labor (more labor, that is).

16. But now the surplus with which he employs labor is not an equivalent, but the withheld amount of previous unpaid labor.

17. He thus purchases new labor-power with appropriated goods, that is, he pays new labor with the produce of dead labor, which produce he never paid for.

18. The capitalist mode of the production of commodities for sale and including a surplus, by which money becomes capital, that is, more money, has now become changed from a system of exchange into one of appropriation. Its character has turned into its opposite.

It can now be seen how closely linked is the Marxist chain. It is hard to think of a more apt illustration of what Marx and Engels meant by dialectics, that is, a process changing into its opposite by mere quantitative changes due to the laws of its development.

In the flood of production the original capital has been reduced to a vanishing point. The hundreds of years of capitalist production, all built on the reinvestment of surplus-value, must make the original capital a mere memory. Here and there a new original capital, tiny in amount, is built up of saved labor. But it can now be said that well over 99 per cent of capital, if not 99.9 per cent, is the gift of labor to its own exploitation.

Everyone knows the legend of compound interest.[4] However theatrical (and inexact) may be its calculations, they are simply a heightened form of saying that all capital is accumulated interest, and interest, itself is merely a fragment of surplus-value.

[4] Compound interest frightens parliaments. A French Huguenot banker once provided that his fortune, upon his death, should be reinvested to eternity. Pitt, realizing that this was already the largest fortune in London, and that there were no children to inherit, saw that the trustees of this money would eventually have more funds than the British treasury. The will was annulled by law. (Of course, the larger the sum, the more it would reduce interest rates by its own weight. Pitt exaggerated the danger.)

The Separation of Surplus-Value into Capital and Revenue

We know that the capitalist employs a part of surplus-value for his own consumption, another for the increase or accumulation of capital. It is only as an accumulator that he is capital personified, for as a consumer he is not to be distinguished from the lavish feudal nobility, or any previous ruling class. He, as capitalist, shares with the miser or hoarder the passion for unlimited wealth that can never be consumed. It is this passion that is the motor-force of capitalist production. It is this obsession that so drives on mankind to produce, that the capitalist system has thereby become a producer of wealth infinitely above the merely consumptive and hoarding societies of the past. But this need of the capitalist for expansion is not a choice, it is forced on him. As a consumer he robs himself of his own accumulation.

Not All Profit Is Accumulated

But he is not a personification of capital only. Regrettably, he is also a man, with man's foibles. At the dawn of a capitalist's career he has to be single-minded in the pursuit of wealth. The greater his frenzy for wealth and its accumulation, expansion, growth, the more his possibilities. While his competitors sleep, he toils upward in the night.

But as he gets into the process of money-making, and speculation and credit open chances of sudden enrichment, he gets away from the primitive basis of sheer money-ambition. He needs to live luxuriously. For no matter what their need for accumulating capital, rich men live in mansions and not in hotels, own cars rather than walk, decorate their homes with paintings and not with the comic supplement, and go in heavily for decorative polygamy.

The capitalist is in a different position from the miser. Every time the miser buys a sandwich he parts with a coin, and so his digestion is impaired. But a capitalist can (if his workers abstain enough) get richer and still eat the bitter bread of exile at Monte Carlo.

(As the gaming tables of that famed Casino showed, the capitalist was never as open-handed as the lavish, extravagant, feudal

nobility of Hungary and [Czarist] Russia. He, unlike them, can calculate.)

And so he is torn between two passions, accumulation and luxury. Malthus was so impressed by this separation of functions that he counseled the capitalist to go on accumulating as a monk or anchorite of productivity, and to let landlords, statesmen, and bishops do the spending.

But after the revolution of 1832 in Lyons and the Chartist agitation in England, and the creation of Socialism by St. Simon and Fourier in France and Owen in England, no more was heard of these speculations. The political economists, headed by Nassau W. Senior, pronounced that the word *capital*, considered as an instrument of production, should be substituted for by the word *abstinence*.

The Abstinence Theory

It appears that it is the abstinence of the capitalist from consumption that is the cause of his accumulation. He forbears to consume, to spend, he is abstemious, and by this self-sacrifice, the instruments of production are increased. It is a more journalistic way of saying that the capitalists derive their money from what they save, meaning not what they save out of surplus-value but of what they save from their own exertions.

The capitalists, say the abstinence school, lend the instruments of production to the workers, robbing themselves of their enjoyment by so doing. As they cannot eat locomotives or present actresses with manure-mixers, this must mean that they could use their money to buy consumption goods instead of producers' goods. If they do not, capital is increased.

It means that the capitalist is in the same dilemma as the slaveholder who could not decide whether to use his profits in buying champagne or in acquiring more Negroes and more cotton land, a dilemma solved for him by the fiat of Mr. Abraham Lincoln. The Socialist polemist Lasalle ridiculed the abstinence theory with a picture of Paris: the workers gorged with caviar and, therefore, by failing to abstain, remaining in poverty, and then the Stock Exchange, in which men looked much hungrier because they had

abstained and so had more capital, and finally he saw a wretch in rags, whose skin was falling apart from his bones, and this was of course the largest abstainer and therefore the richest man in the world, Baron Rothschild!

The Division between Revenue and Accumulation

The increase of capital having been accompanied also by an increase of luxurious expenditure by the capitalists, the economic problem, seriously, is to discover what circumstances, independently of the allocation of surplus-value between capital and revenue, determine the amount of accumulation. These are the degree of exploitation of labor-power, the productivity of labor, the growing difference in amount between capital employed and capital consumed, and the quantity of capital advanced.

Given any definite division of surplus-value into capital and revenue, the quantity of capital accumulated must be based on the magnitude of the surplus-value, that is, on its mass. Suppose that 80 per cent were reinvested and 20 per cent eaten up; if the surplus-value is $100,000 the new capital will be $80,000, or if the surplus-value is $50,000 the new capital will be $40,000. The rate of surplus-value, as before stated, is the degree of exploitation of labor-power.

Ricardo holds that the acceleration of accumulation due to the increased productiveness of labor is the same as that due to the increased exploitation of the laborer. One is the other. But in fact, the need to pay labor less than its value and the carrying out of that desire play a constant part in practice, in the accumulation of capital. It transforms a part of the consumption fund of the worker into a fund for capital accumulation.

Attempts to Lower the Value of Labor-Power

The present standard of living of the workers in any country is always compared to their disadvantage with that in more poorly paid countries. The English laborer is rebuked for his wasteful consumption of pipe tobacco, while the French laborer is content to roll his own cigarettes out of the debris of Virginia tobacco. The French laborer is rebuked because he insists on excellent white bread and common wine, whereas the German worker accepts rye bread and adulterated beer.

The American worker has been everlastingly reminded since 1919 by press and pulpit that once he was vicious enough to buy silk shirts. He always consumes too much.

Hence schemes abound to make him consume less. The number of calories in his food is calculated, and if the 2,500 required can be got out of potatoes rather than meat, meat is a waste. If the various vitamins can be got out of citrus fruits and fluid milk, the social experts regret that he thinks of certain savors and has just a touch of the connoisseur in him. Since the reproduction of labor-power is largely traditional, this attempt to depress the value of labor-power is a constant theme. During a crisis these maneuvers become successful and the minimum standard of life, fixed for relief or by minimum wage laws, tends to become the maximum. This is an important source of appropriation, of obtaining more than previous surplus-value.

Economy of Constant Capital

Economy of constant capital is another form. Suppose that 100 workers in a factory work 800 hours a day. If the capitalist can lengthen hours he does not have to invest in new equipment, but if he adds to his working staff, he must do so. The machines would be more quickly consumed, true. But if that consumption were slow and the saved outlay large, the rate of surplus-value, source of accumulation of capital, could be raised without any investment in constant capital to correspond. In the case of mines, where God furnishes the raw materials, the constant capital consists almost entirely of instruments of production which can absorb more labor. Here the mass and value of the product rise in proportion exactly as labor is expended. An increase in exploitation is enormously profitable. For this reason the temptation to exploit the last ounce out of the mine workers is constant and it is not for nothing that the most savage conflicts of labor and capital have converged in the mining industry.

Higher Degree of Productivity

Another factor in the accumulation of capital is the degree of productivity of social labor (apart from degree of exploitation).

By means of the increased productiveness of labor, the accumulation of capital is accelerated, although the additional capital has a smaller value since it is produced in less time. To explain: when the productive powers of labor increase, so does the mass of its products, in which a certain value is embodied, and in the bosom of which value is a certain surplus-value.

Even if the *rate* of surplus-value falls, and the productive power of labor rises more than that, the *mass* of surplus products is increased. The capitalist may take more for his consumption and yet not reduce the amount required for accumulation below that previously so set aside.

On a social basis, the accumulation fund may even gain relatively, strange as this seems, if the increased productivity of labor has cheapened the articles of consumption of the capitalist, for then he spends absolutely less on his consumption than before and has an additional contribution to make to accumulation beyond that due to greater productivity of labor.

But as the productivity of labor gains, the time required for the reproduction of labor-power also diminishes and so this increase is a cause of a higher rate of surplus-value, even if wages (real wages) have somewhat risen in the meantime. A great many factors that seem to contradict each other are in operation here, yet they all conform to the Marxian analysis of the foundations of capital accumulation.

But a far more important, because progressive, factor in accumulation, is in the development of technology. Here we graze on the frontiers of what is to become the widest field of Marxist theory, the operation of the organic composition of capital.

Cheapening of Constant Capital

The development of the productive power of labor has an effect on the original capital used in production. A part of capital consists of long-term installations which take years for their consumption. But every year a part of this installation reaches its productive limits. It must be replaced.

If labor has become more productive during the period of the employment of the old equipment, then cheaper tools, machines,

apparatus, or other instruments can be substituted. The old capital is replaced in a more productive way, apart from the detailed improvements which go on all the time in machinery or processes.

The same is true of new materials whose use is introduced into chemistry, etc. Science and technology give capital a power of expansion independent of the quantity of capital employed in an enterprise. These in turn have an effect on the type of new capital which has to be introduced to replace that part of the original capital that has been used up.

In its new shape, the social advance made in the meantime is incorporated gratis. There is another side to the picture, for although productive capacities are gained for nothing, there are depreciation costs chalked up against the antiquated and superseded equipment. The capitalist tries to recover this depreciation from the workers, in his struggle to diminish competitive costs. This is attended with varying success, but in the case of certain English industries, parliamentary commissions have held that the worker must justly take a reduction in pay to compensate the factory owners for their losses due to their aging and archaic machines.

Labor transfers into its products the value of the means of production it uses, that is, of the constant capital. The value and the mass of this constant capital increases, as it is increasingly set in motion by more productive labor. The same quantity of labor adds always the same sum of new values, but the old capital-value, transmuted into the products of labor, becomes more important with the productivity of labor. Because the time consumed is the same, the value added by labor is the same.

Therefore, when we speak of increased productivity we mean more production in the same time, and this means that the only reflection of this increased productivity is the greater amount (old value, that is) passed on into the new products.

For example, in the same society a spinner who is working on a modern, automatic spindle, works the same hours as one on an older spindle. But if the labor of the worker on the better spindle is 3 to 1 in results, it does not mean that more new value is added, but that more old value (greater quantity of raw cotton, etc.) is

passed on into the new yarn. It is the natural property of living labor to transmit old value while it creates new.

Labor, with increasing efficacy, keeps up and renders eternal an ever growing capital-value in ever new forms. This natural power of labor appears to be an intrinsic power of capital, in which it is incorporated. But the old capital would never have emerged as value except for the application of labor which, because it creates new value, in that very process perforce preserves old value.

The economic consequence, due to advance in the arts, is that with the consequent increase of capital, the difference between capital employed and capital consumed is increased. The amount of capital put into buildings, equipment, etc., is a constantly augmenting mass, and so the laborer is more and more transforming values that are incorporated piecemeal into his products.

A factory good for twenty years is replaced by 1/7300th part every day of production and enters to that extent into ribbons produced daily in a ribbon factory. A loom good for ten years is incorporated 1/3650th every day into ribbons. By being *wholly employed* at every instant but only *partially consumed*, they act very much like natural forces—water, steam, and electricity. The advancing accumulation thus puts more and more dead labor into production. The effect of this constantly increasing role of equipment as against new value leads to an important stagnation in production as well. (That becomes significant later in the theory of crises.)

Elasticity of Capital

With a given degree of exploitation of labor-power, the mass of surplus-value produced is determined by the number of workers exploited at a given time, and this crudely corresponds with the quantity of capital employed. The more capital is augmented by these successive accumulations, the more does the surplus-value gain, so that dead labor is an increasing gift to living profits.

The greater utilizations of labor-power, land, and science, give capital an elasticity, that is, a chance to go beyond the limits set by its quantity. And that elasticity, that ability to extract surplus products, itself increases with the greater quantity or accumulation

of capital. The greater the capital the wider its independence from the limitations of its given magnitude! If we add the effects of circulation (but this takes us out of our scope, which is production) an even more complete picture can be given of the dynamic capacities of capital.[5]

[5] Capital is thus seen not as a fixed but as an elastic quantity. It is not the whole of society's wealth but a special segment. It can prolong labor-time, increase productivity, exploit the ores and land more, utilize the heritage of science, and is enormously affected by the mass of accumulated fixed capital. This is the exact contrary of the idea that capital is a definite quantity, such as was held by the celebrated Wages Fund theory. The action of capital is given in analysis, but its real history permits of much latitude. When we come to the sphere of circulation its action will be known in full.

24

The General Law of Capitalist Accumulation

Accumulation and Demand for Labor-power; Organic Composition of Capital as Given

Marx now takes up his most important social theme, the fate of the working class as a result of the growth of capital. For him, the most significant factor is the composition of capital, constant and variable, as it is affected by the process of accumulation. As labor-power is paid by variable capital, this composition is fundamental to the workers' interests.

Technical and Organic Composition Distinguished

As *value,* capital is either constant or variable. As *material,* it is either means of production or living labor-power. The latter ratio is that of the mass of means of production to the mass of labor employed on them. The value composition is the name given the first division, the technical composition the second. Both are aspects of organic composition. Between the two there is a strict correlation. Therefore, it is best to state that insofar as the value composition reflects the technical it can be called *organic* composition. These terms should be retained; they are key-themes. The organic composition of capital is considered as an average, since individual capitals vary considerably.

Wages Can Rise for Short Periods

The growth of capital must involve the growth of its variable part invested in labor-power. Let us assume that the composition of capital remains the same, that is, that a definite mass of production requires a definite mass of labor-power, all other things being equal except that production is advancing. In that case the demand for labor would increase in the same proportion as capital itself grew.

Since capital is added by the reinvestment of surplus-value, and

since there are special stimuli to enrichment, such as new markets for goods or new possibilities for sales of goods, resulting from changes in social needs, it follows that the pace of accumulation might suddenly be greatly quickened.

It might be extended by several means. A change in the proportion of surplus-value put into capital instead of spent as revenue is highly probable, for that would be productive of future profits, under such favorable conditions. The requirements of the capitalist for an accumulation might be such that his present supply of laborers does not suffice and he may have to increase the numbers of those he employs.

With such a demand for labor, and with no change in the composition of capital, between constant and variable, and with a gaining business—a boom, in fact—this demand for labor might lead to a rise in wages.

For surely, if the accumulation of capital, as a social total, continues for some years, a point must be reached where it will increase faster than the available supply of labor can increase.

Sometimes, in the earlier stages of manufacturing, prior to capitalism, this state of affairs lasted a considerable time. The first half of the eighteenth century was such a period. The whole of the fourteenth century in England was a really happy time for labor, the period enshrined in folk memory, in glees and catches. But the relation is somewhat different, for under capitalism even an increase of wages must conform to the deeper necessities of the system.

Conditioning of Wage-Rises

As simple reproduction constantly reproduces the capital relation itself, that is the relation of capitalist to laborer, so reproduction on an extending basis, on the accumulation of capital, reproduces the relations of larger capitalists on the one hand and more workers on the other. The working class, even with wages improving, must reproduce a mass of labor-power, they must incorporate their surplus-labor with capital, they must supply the entire expansion of capital. Any accumulation of capital must increase the working class, the proletariat.

But while the wage level rises and the mass of wages increases, the yoke of capital is tolerable and even compatible with some prosperity for the worker. For, under the conditions given, the employment of labor does not become more intensive, but rather extensive, that is, there are more workers. A larger part of their own surplus product enables them to live better and to save a certain small sum.

But their class relation is not altered, not even in the slightest. Labor-power is bought by the capitalist to produce commodities that contain more labor than he pays for. He must receive a few hours of unpaid labor. The conditions of the sale of labor-power must always allow of the means of production preserving their value as capital, and yield an additional capital, as well as provide for the revenue of the capitalist.

Wages, since they express the value of labor-power (which is always less than the product), imply this relation. Leaving aside the fact that higher wages often conceal a lower price for labor (that is, the productivity of the worker has increased more than his wages), or that the cost of his means of subsistence expressed in money might be more than the gain in wages, even if these negative aspects do not occur, still, such an increase in wages at best means that the worker has reduced only slightly the amount of unpaid labor. This sounds like a mere dogma, or prejudice, but the reasons are pervasive.

How Wage Rises Are Terminated

Either the price of labor keeps on rising because its rise does not interfere with accumulation of capital (for even with diminished profits capital may gain because its greater quantity may permit a greater mass of profits even at a slower rate) or accumulation slows down just because of the rise in wages, because the stimulus of profits has been reduced by the shortage of labor. Once the rate of accumulation slows down, the cause of that slowing down vanishes, that is, the disproportion between capital seeking labor-power and the supply of labor-power.

The price of labor must fall to a price corresponding with the need of capital for expansion, and that level may be a trifle above,

at, or below the level at which the extra demand for labor-power began. To sum up:

Capital was in excess of the supply of exploitable labor-power. It was the *relative* diminution of capital to labor-power that caused the price of exploitable labor-power to rise. But it is the *absolute* movement of capital which appears to be a relative movement of the labor-power and so seems to have been brought about by labor's own independent action. That can be put mathematically.

The rate of accumulation of capital is an independent variable, the rate of wages the dependent variable. Naturally an absolute movement of capital may become relative to labor factors. But it is primary and, as soon as the relative situation interferes with its absolute movement, it shakes off the dependent variable, labor, and reveals exactly where the movement started from. This is important because the theory that it is the fluctuating supply of labor and not the needs of capital that determines the rise and fall of wages, leads to the so-called population theories of wages.

Once it is seen that the real variation here is between the unpaid and paid parts of labor-power's production, which is all that variations in wages *mean,* then the labor-supply is seen as merely an increase of the amount of paid and a diminution of the unpaid labor during a boom. But as soon as that unpaid labor is reduced, so that capital's expansion into more capital is threatened, it stops. The rise of wages not only must leave capitalism intact, but it must leave its expansion possibilities extant. The social relation of classes is the basic one; any diminution of unpaid labor is a special and temporary phase of that relation. And that is the best situation labor can ever attain.

The previous description is valid only for the most exceptional circumstances, rare moments when accumulation may take place without a change in the organic composition of capital.

Organic Composition of Capital Growing

Now we come to the characteristic and almost unbroken tendency which capitalism really exhibits, a changing organic composition, or, more definitely, an increasing organic composition in which constant capital is forever growing in proportion to variable capital,

that is, more capital is steadily put into means of production and relatively less into wages. This section is worth more concentration than any other since the original exposition of value, for the dynamics of the capitalist system is here revealed.

Any change of technique must disturb the organic composition of capital. The words "change in technique" mean a change in machinery or chemical process, on the one hand, or, on the other, a different organization of work, so as to get more out of labor, and, in either case, they must mean the relative diminution of wages to means of production.

Even the classic economists, before Marx, held that it was not the actual social wealth nor even the quantity of capital actually used that determined the growth of wages, but rather the constant gains in accumulation and the speed of those gains.

We have seen, too, that the first need of capitalism is to obtain relative surplus-value, and that what is called technical progress is but a physical name for the economic activity of increasing relative surplus-value.

Competition drives every capitalist on to reduce what he terms his "cost of production." Hence, to increase the productivity of labor in every way, including increasing its intensity, is the most important weapon of capitalism. Without it, even the devices we have described for obtaining a greater elasticity of treatment of labor would be ineffective.

A reduction in the value of labor-power is of vital interest to its buyer, the capitalist, in the way that cheaper goods are the need of any buyer. And that points to a relative diminution of labor costs, since what the capitalist wants is that with these smaller labor costs he can transfer the value of more raw material and instruments of labor—in simple language, produce more.

Apart from natural variations such as the fertility of the soil or the skill of exceptional producers (shown rather in quality than quantity, and altogether exceptional in capitalism), the degree of productivity of labor is expressed in the relative quantity of the means of production that any laborer, in a given time, turns into products. The mass of the means of production (constant capital) that he transforms into other use-values increases with the pro-

ductiveness of his work. These means of production now play two parts.

First, with the division of labor, and the use of machinery, more raw material is worked up in the same time, and therefore a greater mass of raw material and other substances enter the labor-process. This is the *consequence* of an increasing productivity of labor.

Secondly, the mass of machinery, equipment, tools, plant, etc., is a *cause* of the greater productivity of labor.

Both aspects have one result, that the labor factor in adding to value becomes of less consequence compared with the former labor that has been transformed into commodities.

In this way a factory that begins, say, with constant capital and variable capital equal, soon reaches a point where the ratio is 4 to 1 for constant capital. That is the law of organic composition. This principle is confirmed by an analysis of commodity prices. Relatively, the *quantity* of price of goods that constitute constant capital is in direct proportion to the means of accumulation, while the mass of wages of labor is in inverse proportion to the advance of capital accumulation. This is confirmed, further, as follows:

Let us say that organic composition of a cotton mill today is $\frac{7}{8}$ constant and $\frac{1}{8}$ variable capital. It was formerly $\frac{1}{2}$ and $\frac{1}{2}$. This means that the means of production utilized by labor has risen far more than that proportion would indicate. Because, with the increasing productivity of labor (of which that altered proportion is the witness) not only does the mass of the means of production consumed increase, but the value of those means of production are less compared with their mass. That was the object of capitalism, to make each item cheaper and therefore the mass of items in the means of production also cheaper. Their value rises absolutely but not in proportion to their mass. This means that the increase of the difference between constant and variable capital is much less than the increase of the difference between the mass of production and the mass of the labor-power that converts it. The difference does increase between constant and variable capital but it does not increase as much as the difference of their masses increases.

Rationale of Increasing Proportion of Constant Capital

Now, since that is very recondite, let us simplify. Where more means of production are used steadily than labor-power, for any given product, the total price of those means of production must be increasing to correspond with the increase in capital accumulation. But as less labor-power is used, the reverse is true.

Relatively to the means of accumulation (to the new capital produced) the contribution of the total labor employed diminishes. But if the means of production used are cheaper than they were formerly, then their physical quantity will be relatively greater than their value, for there was less labor-time incorporated into each item of the means of production than had previously been the case.

In other words, as production grows more and more efficient, the quantity of labor incorporated into each article that makes up the means of production is less, so that its value is less. That means that the value of dead labor is smaller, relative to that of living labor, for each unit employed, but this is more than counteracted by the greater proportion of this dead labor, as a quantity, to the living labor that uses it and transforms it.

This, then, is Marx's meaning when he says that the difference increases steadily between constant and variable capital, but that the differences in their quantities become far greater than the differences in their values.

Absolute Magnitude of Variable Capital Increased

But if the progress of capital accumulation lessens the relative magnitude of variable capital, it does not stop its absolute magnitude from growing. A capital of $100,000 is composed of $50,000 constant, $50,000 variable. It rises to $300,000, $240,000 constant and only $60,000 variable. But now it will take four times the constant capital to employ the same amount of labor! And thereby hangs a tale.

The Concentration of Capital

The capitalist mode of production requires both the accumulation of capital and that capitalist accumulation raise that mode of production to a greater development. These two factors in the

compound ratio of their impulses reciprocally given each other, compel the increase of accumulation of constant capital, and the relative growth, therefore, of capital advanced as wages.

Every individual capital must be considered as a concentration of larger or smaller means of production and as commanding a small company or a large regiment of workers. The growth of social capital is brought about by the varying growths of many individual capitals.

There are, however, two kinds of development. First, there is the employment of new capitals. Fathers have sons who want to go out for themselves; there are quarrels between partners in business and they split up; inheritance subdivides concerns. Secondly, there are always some members of the noncapitalist class who accumulate some money, by gambling or professional skill or true saving, and engage in new businesses.

Hence, with the accumulation of capital, the number of capitalists at first grows, irregularly, and less and less as more capital is required to enter business. But this is merely a numerical aspect. And it leads to the conflicts that follow.

There are two features of the concentration that grow directly out of, or rather, are another expression for the accumulation of capital.

First, the increasing concentration of the social means of production in the hands of capitalists has a limit, the degree of the increase of social wealth.

Second, in each industry, capitalists fight each other as competitors. The increase of each capital is thwarted by the formation of new capitals or the division of old capitals.

Accumulation has two faces: One requires more capital to acquire the ever increasing constant capital needed in business. At the same time, that capital must watch the limitations of its maneuvering due to the limits of gains in social wealth, and it must provide for its collision with competitors. This combination of an increasing need for larger capitals and for warding off the constant attacks of businesses on each other, in a given market, leads to the characteristic features of modern concentration.

The Centralization of Capital

Within the limits of the growth of social wealth a conflict between capitals leads to the defeat of a certain number, their destruction or their absorption. Capital grows in one enterprise because it has been lost in another, or, as is more usual, in many others. This is *centralization*. It is distinguished from *concentration*. The latter is due to fewer and fewer capitals being engaged (because of the growing demands of constant capital investment) and to accumulation, which is the growth of individual capitals already in the field. But *centralization* presumes a fairly mature *concentration* in the business units it absorbs, controls, or annihilates.

Although we shall develop the law of centralization in another section, here are its present implications. The battle of competition is conducted by way of price. Cheapness of commodities is the weapon. The cheapness of commodities depends on the productivity of labor (all other factors being equal), and the extent to which labor can be made most productive on the amount of means of production provided per worker, which means that it depends on the scale of production.

Therefore larger capitals beat smaller capitals. The beaten smaller capitals crowd into spheres of production where modern industry is incompletely developed, where less investment in means of production is required.

The smaller capitals have to pay out more in variable capitals. They are numerous, weak, and run at great expense. They die like flies. Part of their assets fall to their larger competitors or creditors, part vanish.

We are not considering here, as we shall later, the effect of credit. The larger businesses with adequate capital and ample resources enjoy all the facilities of large credit and cheap financing. The smaller ones, whose reserves against disaster are less and whose competitive costs are high, enjoy little credit, and for what credit they get are burdened by high charges. Competition and credit combine for their deadly work.

The technical requirements of new or of expanded capital restrict the possibility of economic investments to previously centralized capitals.

Public Financing

These centralized capitals have another advantage: they can get their money from the public. If General Motors wishes to acquire new enterprises the company issues, say $10,000,000 of four per cent preferred stock, and the public will give it the money. Mr. John Smith, who has a capital of $100,000 and is in the same industry in which the corporation is expanding, might obtain at best a few thousand dollars from his bank, and then only for a short term, with specific guarantees and at great cost.

Marx Prophesied the Trusts

Marx predicted in 1867 this tendency toward an immense centralization of capital. It is the one prophecy of his for which all critics unite in bestowing on him the mantle of the seer.

We know that there are trusts, billion-dollar corporations. We know that hundreds of thousands of men are employed by single corporations which are no longer businesses but really local governments.

We know that a thousand important corporations, between them, and with their financial connections, dominate the whole industrial life of the country. Here and there someone points to the numerous small businesses surviving, but no one disputes the proportion of social capital in large hands.

But when Marx, by his profound studies of relative surplus-value and its concomitant, the increasing proportion of constant capital, startled the economic world with their projected consequences, he was considered to have exaggerated, if not to have been downright wrong. The largest companies in the advanced countries, then, never employed as many as 10,000. Krupp in Germany had got to 7,000, and some of the new American railroads, like the Vanderbilt system, were passing 10,000. But compared to total labor employed they were unimportant.

Now they are representative forms of capital, the others are the exceptions. Their centralization is far greater than appears on the surface, as a result of cunning legal devices whereby their too challenging power is veiled.

Capital is centralized in numerous styles. There is amalgamation, absorption during crises of the weaker by the stronger, sell-outs, etc. These are merely forms; it is the Marxian essence which is seen through them. The consequence of business requiring an ever increasing constant capital to employ labor is concentration, which is the daughter of accumulation. The increased volume of establishments causes a more comprehensive organization of labor, that is, a progressive transference of isolated processes of production into socially combined and scientifically managed processes of production. This social feature, this tendency more and more to manage large enterprise more nearly like the totality of society, is the reason Marx sees in the inherent laws of development of capitalism the foundations of the socialist system which he believes will take its place.

Centralization Ends Gradual Accumulation

We saw that accumulation reproduced capital as a spiral form by constantly allocating parts of surplus-value to new means of production and variable capital. But centralization, at one bound, passes these step-by-step processes.

Centralization does not wait for accumulation. It calls up the savings of millions by stock promotions. It utilizes the entire social capital in its service. It does not build ten miles of railroad and then add two miles a year. It mobilizes all accumulations and directs them quickly into new channels. It suddenly builds a thousand miles of railroads; it conjures up a new cellophane industry in a few months.

It wipes out age-old accumulations by immediately employing a single new technical device, on a ready-made gigantic basis. It smashes phonographs and installs radios within a year or two. It increases the fluidity of enterprise and more and more imperils the old ease of life that went with "safe investment." [1]

[1] About 1925 it dawned on the pundits of Wall Street that "investment" was a questionable policy in some aspects. The deduction drawn by many experts was, gamble in stocks (spec-vestment) of large monopolies and ride like a fly on the nose of the monopolist ox. Those who followed that advice were shaken off in the panic when the ox stumbled too!

It organizes socially, but it transforms in a revolutionary sense. It does this by shifting the quantitative grouping of parts of the total social capital. By intensifying the hitherto slow process of accumulation, it speeds up the changes in the technical composition of capital: the ratio of constant capital to wages paid rises to unprecedented ratios, to previously unimaginable heights.

Here is another illustration of Marx's favorite thesis: a change in the size of capital changes the ordinary quality of accumulation, stops its orderly movement, and now advances by leaps! This is dialectical materialism as opposed to the usual evolutionary philosophy.

25

The Industrial Reserve Army

This chapter requires a summary of its thesis before it is developed. That is, that the rapidity of accumulation of capital due to centralization leads, first, to a constantly relatively diminishing demand for labor; secondly, to a worsening of the position of labor relatively to capital; thirdly, to the absolute worsening of labor conditions, in any area where a *given* capital exploits it; fourthly, to the formation of a reserve army of labor, fluctuating but always present, consisting of unemployed, paupers, or occasional labor; and fifthly, to the use of that body of *misérables* as the permanent lever for depressing wages below value. In addition, of course, the rivalries of national capitalism reflect the immense concentration of capital within each country, and the need for markets and investments leads to wars, which are fought primarily by the workers and farmers. This account will guide us through the long analysis to follow.

The demand for labor is determined not by total capital but by its variable constituent alone. Therefore it falls progressively with the accumulation of capital, that is, it falls relatively to the magnitude of capital, and falls at an accelerated rate, as this magnitude of capital further accumulates.

The increase of variable capital (as a quantity), though, continues, but at an ever slackening pace. And where, in the earlier forms of accumulation there were pauses in which the organic composition of capital might remain constant for a while, now these pauses are shortened.

Apparent Surplus Population

This accelerated relative diminution of variable capital, that moves faster than the increase of total capital, takes the reverse form, on the other hand, of an apparent increase of the laboring population. The number of laborers seems to be increasing at a rate greater

than that of variable capital, which is their means of employment.

But, in fact, it is the accumulation of capital that constantly creates, in direct ratio to its development and extent, a relatively surplus population of workers. That is, capital accumulation produces a population of workers greater than its own needs for self-expansion can utilize, and so this population is a surplus population only because that capital cannot use it.

But the centralization of capital has consequences peculiar to itself. In some branches of industry a change in the composition of capital can occur without an increase in its total quantity, and this would happen because of simple centralization. In others, growth of total capital diminishes the proportion of labor-power it absorbs; in still others capital grows for a time on the same old technical basis, and so adds more labor-power than before, etc.

Uneven Movements of Variable Capital

That is, the movement of accumulation in various spheres permits each industry, or type of endeavor, simultaneously to exhibit the most varied combinations in the growth of capital and its constituent sections.

But this means that there are great irregularities within the total production, violent fluctuations, needs for adjustments, to catch up or to deflate. Workers are constantly thrown out of certain occupations when employment is gaining elsewhere, or the absorption of labor becomes stickier in certain industries, though very slowly.

This simultaneous development of every type of change in variable capital becomes characteristic of the system even during periods of average prosperity.

For example, it is notorious that in all industries employing large capitals, in the United States, where these capitals were invested primarily in labor-saving machinery, there was a decline in men employed even during the period of boom from 1922 to 1929. This was compensated by an enormous increase of white-collar workers, agents, etc., and those engaged in what are called the service industries.

That is (as before stated in the study of machinery), the relative surplus-value which throws out millions of workers is diverted into

supernumerary expenditure and employs persons in those occupations where the variable capital is still high compared to the constant. As soon as there is a crisis—that is, as soon as surplus-value is available in extremely small quantities—the superstructure of non-mechanical employment topples.

The Capitalist Law of Population

The laboring population, then, by its very exertions in creating a new capital, produces the means by which it renders itself relatively superfluous, and it does this to an ever increasing extent. This is the law of population peculiar to the capitalist mode of production. It is not biological. Plants and animals may be governed by Darwinian law, but man's social system produces a special law of population valid only for each historic method of producing wealth.

Special Capitalist Use of the Unemployed

The relatively surplus laboring population now becomes a lever of further capitalist accumulation. More, it is the very condition for the existence of the capitalist mode of production. It forms an industrial reserve army that belongs to capital, which does not pay for it. It creates, for the expansion needs of capital, a mass of human material ready to be used at such temporary junctures as it shall be required.

With accumulation, and above all with centralization, as we have seen, capital acquires the new capacity of developing by leaps. The elasticity of capital is greater, the absolute wealth of society increases, credit places social accumulation at the service of certain sections of capital. But these are aids, not special new features.

It is rather that the technical conditions of production themselves, such as automatic machinery, swift transport, now permit of the quickest possible transformation of means of production into new capital. When new capital must throw itself frantically into sudden expansions of older forms of production, or into new forms, it must have at its disposal great masses of men who can be hurled into these decisive spots without injury to the functioning of production in its more steady manifestations.

Industry becomes Napoleonic; like that military genius it keeps regiments in reserve for the moment of decision. It gets these reserve battalions in the way most armies get new recruits, from the unemployed, from the so-called surplus population.

Now that industry has come to operate in cycles, years of prosperity followed by years of disaster,[1] boom and stagnation or crisis alternating, it needs the constant formation of new reserves for expansion and a really gigantic human scrap-heap when the crisis comes.

So, by turns, the industrial cycle recruits the reserve army and, through its crises, is the most potent agency in forming ever greater reserves. This is an absolutely new phase of human history. Whatever the lucubrations of economic historians who seek to assimilate the crisis of 1562 to that of 1929,[2] the fact is that the rise and fall of human employment is an innovation of capitalism.

Malthusianism Is Irrelevant

Marx points out that here the effect of the accumulation of capital produces a relatively surplus population for its requirements, and of course the relative surplus population is declared to be a surplus population and its excess to be the cause of its nonemployment, of its misery.

This is the doctrine called Malthusianism. It has never explained why it is that with the birth rate progressively declining for the last eighty years the percentage of unemployment, on a secular basis, has gone just as steadily forward. Britain, with the lowest net reproduction rate in Europe after the war, had a frightful increase of permanent unemployment for more than a decade, and even during its stimulated prosperity, the residue of unemployment remained large.

Variable Capital Not a Reflection of Numbers Employed

There is an important re-enforcement to unemployment apart from the diminution of variable capital as a proportion of the

[1] For some reason crises are always equated to the seven fat and seven lean years of Joseph in Egypt. His panic was real; the crops were short. Ours arise when they are abundant.

[2] Henri Hauser of Paris is typical of these.

total capital. The number of laborers may be diminished while variable capital increases. If each laborer employed yields more labor, and his wages increase, the mass of labor may fall, although a smaller number of persons receive individually larger sections of the variable capital.

Increase of variable capital, in such circumstances, is a sign that more labor is put into production but not that more workers are employed. It is the interest of every employer to get as much possible labor out of a smaller number of workers than out of a greater number, even if the labor cost is the same. The outlay of constant capital would be increased somewhat more in proportion were the greater number employed, and so it is more economical to drive fewer workers than more workers, even if the wages bill be no greater. The more extended the enterprise, the greater its quantity of constant capital involved, the greater its need of intensive rather than extensive use of labor. The force of this pressure increases as does the concentration of capital.

To sum up: The development of the capitalist mode of production and of the productive power of labor (which is both cause and consequence of capital accumulation) enables the capitalist, even on the same variable capital, to exploit labor more intensively or more extensively or, also, to use the substitution of skilled for unskilled labor, of immature or female labor, or to pay the skimpy wages of occasional labor. Thus it can get more labor in action without increasing the number of workers, or get more labor out of the same mass of labor-power, or, if it extends the number, a greater mass of inferior labor-power may substitute for a smaller mass of higher-grade labor-power.

Proportion of Active and Reserve Workers

Thus the overwork of part of the employed groups of workers, by reducing the possibilities of jobs, swells the army of the unemployed. But equally, the presence of that crowd of unemployed stimulates the employed to overwork, so that the others may not step into their shoes. Idleness on one hand, and labor-drive on the other, are the left and right arms of profit.

The general movements of wages, as a whole, are regulated by

the expansion and contraction of the industrial reserve army. These correspond to the changes of the business cycle.

It is not, therefore, the absolute numbers of the workers that matter but the proportions in which they are divided into active and reserve sections. Thus the movement of wages about the general level of its value is affected by the degree to which the expansion of capital varies the proportions of these two armies of workers.

But naturally the helplessness of labor created by the army of the unemployed is erected into a permanent tendency toward a decline in the historic standard of living, that is, to a lower value of labor-power. This is a basic decline apart from all oscillations.

The proof that it is capital that creates the surplus population and not the fertility of the workers is shown by the fact that whenever labor is too costly (from the standpoint of interference with capital expansion) it pays to introduce machinery to replace the workers, so that they become a "surplus population."

This is obscured by the fact that when a given industry is expanding, its demand for labor may suddenly be greater than that for the supply of labor in its trade. Other labor is attracted and until it becomes a glut the demand for labor raises wages.

Thus it seems that an increase of workers in that trade, that is, an increase of population in a certain area, is the determining factor, whereas it is the temporary need for expansion of that industry that shifts the workers from one sphere of industry to the other. But the need for expansion of capital is the determinant of labor population, not the contrary.

True Technological Unemployment

The industrial reserve army not only weighs down the active labor army when times are dull or bad, but even during the rare moments of paroxysm or boom, the memory of that residue and the possibility of its re-emergence hold the workers in check. The machinery of capitalism, by the use of the balance wheel of unemployment, eliminates the possibility of running basically out of gear.

What a light is cast on the so-called freedom of capital to employ labor, once machinery has replaced the workers! It has been pretended that if a machine is invented that throws 300 out of 400

workers into the street, the capital released would soon employ the displaced workers. That argument we have examined statically.

But look at it when there is a previously existing army of unemployed. Capital did not employ them to begin with; now there are more recruits. So that even if the new capital reemploys them the amount of unemployment remains the same as before; the labor-supply position is not changed. Thus an absolute increase of capital, even, is not accompanied by a corresponding rise in the *general* demand for labor.

Marx sums up: The dice are loaded in the game of capital and labor. If capital accumulation causes an increased demand for labor, on the other hand the process of accumulation, by the nature of its operation, supersedes some of the employed, while the pressure of the unemployed compels the employed to give more labor, and, by so doing, to diminish the need for employing others.

Only by a combination of trades unions and of mass organizations of the unemployed, working in concert to stop this double-play, can the ravages of "supply and demand" in the labor market be limited.

Three Forms of the Reserve Army of Labor

The reserve army of labor has three forms, the floating, the latent, the stagnant. The first is the great body of labor that is periodically hired and fired with the ups and downs of business. That is the floating division.

This *floating* population may be relative. Thus, in a given woolen industry, there may be a shortage of trained skilled labor, but that cannot assist the unemployed silk weaver of Paterson.

In the United States we have had a situation in 1937 where with millions of unemployed certain highly skilled branches have lacked labor. And that was because during six years of depression there was mass unemployment in those trades, and training of young men had not been undertaken. These gaps and contradictions are now common.

The *latent* elements are made up of many groups. The aged worker is the largest. He is rarely employed but is useful in emergencies. Now "aged" is a word that is not similarly employed for

workers and well-to-do people. The life insurance companies indicate a longevity difference of more than twenty years between factory workers and the ordinary suburbanite executive or professional man. As for those with a sure living and no work, like English country gentlemen, nobles, and bishops of the Established Church, an English investigation showed that their average longevity is in the eighties, whereas coal miners die in their forties.[3]

Worn out, "too old at forty," the once skilled but weak workers form a large latent supply. So does the agricultural population.

In 1916 when European immigration was interrupted, the expansion of war industries in the North was carried on by a mass of emigration of Negroes from the Cotton Belt. Since then the Mexican and West Indian sources of labor have been tapped. In Europe, two races, the Poles and the Italians, have served for generations as a miserable latent population, used in prosperity and scornfully expelled as "superfluous antinational elements" when business is bad.

Of course, the budding supply of youngsters must be added to the latent group. The necessity for Civilian Conservation Corps policies and the Federal Youth Act shows the importance they have assumed. From the kitchens, mother and daughter also can be and are summoned to mill and workshop.

The third group, the *stagnant*, are extremely irregular workers. Such are the despised "hoboes," condemned to celibacy, and without whom sporadic and seasonal occupations like lumbering and harvesting are inconceivable. Their standard of living is lower than that of the average population, as they provide for neither home nor family. This is the most completely exploited form of all labor. Deprived even of the minimum properties of the poor, they are recruited from propertyless and adventurous youth. Nomadic in habits, they are outside of political thinking, and it is characteristic that their classic form of labor organization, the I. W. W., declared the ballot to be useless for labor struggles.[4]

[3] The British exchequer depends largely on death duties. So tenacious of life are plutocrats that the despairing First Lord of the Treasury in a budget debate repeated for them the general's cry to his unwilling soldiers, "Come on, you rascals, do you want to live forever?"

[4] See Paul F. Brissenden, *The I.W.W.*

On a higher income basis we have the retailers who fail in business, the professional men who never obtain a career, decayed artisans, persons displaced from any trade by technical improvements, etc. The war of 1917 showed, for example, what a large reservoir of labor-power could flow into the factories from the hundreds of thousands of poor women vainly struggling to make a mean living out of shabby lodging houses.

So great is the need for income on the part of these latent groups (who include literally millions not counted in *any unemployment* figures) [5] that they are forced to calculate income on a family basis. So it comes about that for the first time in social history the latent working class has the highest birth rate, while persons of higher income have few children.

Undernourished young persons, who are told by a biological instinct that they cannot live long, try to have children at twenty to help sustain them at thirty-six, which for them is advanced middle age. In Shakespeare's day it was the gentry and the higher clergy who had large families; the artisans in London were comparatively less well provided.

Below the latent, stagnant, floating elements is the famed "submerged tenth," the center of attention of the Salvation Army and like philanthropic ventures. These are paupers. There are three categories: those who can work (as is shown by the diminution of pauperism in a boom); those who are foundlings, orphans, etc. (these work at errand-boy jobs, or as newsboys, especially, in "blind alley" employments); the demoralized, the ragged, the mendicant, aged maniacs, the mutilated, crippled, sickly and poor widows. They have little economic resilience or ambition. Pauperism says Marx, is the hospital of the reserve army of the unemployed.

Then come the elements excluded from labor at all, the criminals, prostitutes, "tramps," the so-called dangerous classes. These groups are used only *against* labor; from this social stratum are quarried the strikebreaker, the anti-labor thug, and, in Germany, large segments of the Storm Troopers (as was the beatified Horst Wessel). But pauperism, with its need for charitable expense and

[5] They are so implicit in the economic system that not even Communist statistics include whole classes as really unemployed.

its use for socially negative purposes, is to be debited rather to the overhead costs of capitalism.[6]

The Absolute General Law of Capitalist Accumulation

Such is Marx's review of the army of the disinherited and their varying economic requirements. According to his economic theory, the greater the social wealth, the extension of capital, the absolute mass of the workers and the productiveness of its labor, the greater is the industrial reserve army. No statistics can reveal the immense impact of this class. The same causes that expand capital expand unemployment. *This is the absolute general law of capitalist accumulation.* It may have a thousand modifications, it may show temporary and startling ameliorations, but the general law must always obtain, always finally prevail, always determine the great mass of economic facts.

Then comes Marx's *indictment.* For him the capitalist system has turned from its superb service to mankind, the multiplication of its wealth beyond that of any previous society, into its opposite, one that merits destruction, for it has become the enemy of human welfare.

It raises production only at the cost of labor; it transforms production from its purpose into a means of dominating labor; it makes the laborer live to serve the factory or business.

He is a fragment of a human being. The system estranges from him intellectual participation in toil, while utilizing everything that outside science can offer. By accumulation, which his labor brings about, this condition is intensified. Production no longer makes goods for man; no one remembers what it all started for. Man makes goods for others to make money.

The more the system develops the worse off the worker is. The unemployed chain him to the cycles of capital. Accumulation of wealth at one pole is accumulation of misery at the other, that is, of the class that alone produces capital.

[6] The special economics of this population is so amusingly given in John Gay's *Beggar's Opera* (1728) and by his modern disciple, the German novelist Bert Brecht, that all learned books are cast in the shade.

The Tendency of Capitalist Accumulation

Capitalism took mankind out of a productive level so low that, as a Frenchman put it, "it decreed universal mediocrity." A small leisure class could almost have justified itself before as the carrier of culture. For even if it were overturned there would be little in social productive capacity seriously to raise the then level of prosperity. At that time, the now meaningless saw, "If you divided X's fortune every poor man would have only an extra orange," would have had some pertinence. For the question belongs only to a society where the means of production are few and inelastic.

Out of the so-called primitive accumulation, by loot and crime, the original accumulation of modern capital began. Once the capitalist system is fully developed, competition reduces the number of capitalists. One capitalist kills many.

The labor process grows increasingly co-operative and social, the world an economic unit. The magnates who monopolize all the advantages of social knowledge, common production, and world markets, become fewer; they shrink to a small collection.

The misery and exploitation of the workers grows. But their training as masses grows, too, for they are organized in production and they learn its lessons. They fight together as they work together.

The monopoly of capital becomes a drag on its development; it produces crises more frequently and these crises become more acute. In its struggle it seeks to recur to its methods of primitive accumulation—wars, colonial plunder, even to political tyrannies.

The centralization of ownership of the means of production and the socialization of labor reach a point where they are incompatible with their capitalist skin. That skin is burst asunder. Private property is doomed. The expropriators of others' labor are themselves expropriated.

Marx predicted that while the transfer of social resources from the few to the working people, the immense majority, would be difficult, it could not compare in length or horror with the four hundred years of war and terror during which the capitalists established their dominion. For the many must find it easier to displace a few usurpers than the usurpers found it to engross all the goods of mankind.

INTERLUDE

From Production to Profits

We have summarized the doctrines of Karl Marx as they appeared in the celebrated first volume of *Capital*.[1] This is the only one of the three volumes of Marx's major treatise that has enjoyed wide reading. It was finished by Marx himself and issued by him.

Its literary style, despite the captious references of those who have not tried to read it seriously, is remarkable. It is a storehouse of wit, satire, learning, allusiveness, and it is an expository and oratorical triumph. The freight of European thought is unloaded in precious packets in the book.

But it remains only a first volume. Marx specifically confines it to a study of capitalist production, as a process, that is, not as the real or total position of capitalist production, but a study of it, isolated from its great context, so as better to illustrate its mechanisms.

Since for Marx historical materialism is always based on the modes of production and the study of society begins with a study of production relations, this is a most apt proceeding.

True, he refers in the book to the sphere of circulation, especially that in which the capitalist buys labor-power and sells his commodities so as to realize the surplus-value therein. His study of the universal equivalent, of the general form of value, of its money manifestation, are also given in the first volume.

But basically it is the process of capitalist production, hedged by a series of assumptions, such as that goods are exchanged at values, that interests Marx. But even if the process of production be primary and the circulatory phenomena of economics derivative, the latter exist nevertheless, and if they do not reveal either the skeleton or the physiology of capitalism, they certainly are its morphological aspect. We know our friends by their appearance, whatever the

[1] And the theory of the average rate of profit from the third volume.

zoologist may classify them as, the physician treat them as, or the chemist dissolve them into.

Capitalism presents itself to the human race not as a transient historic form but as the life they live, and they act in their daily existence as though its mask were its face; but since the history of men is also the history of their outward behavior, Marx studies that as well.

The second volume of Marx, which deals with the circulation of capital,[2] and the third, that deals with profits, rent, and interest, were edited by Engels from Marx's notes. This heroic undertaking was faithfully accomplished, but the literary style of Volume One is missing, although certain sections, like the critique of Adam Smith in the second volume and the exposition of rent in the third, are admirably written.

Not only were the notes unfinished but they are repetitious in a curious sense. For Marx was approaching his subject from many angles, and Engels wished to show how this method worked. So that while we can see that Marx ignored neither a book nor even a citation, and that he laid the resources of reading at the service of thought, yet the reader may feel as wearied as he does when he must for the hundredth time hear the *leitmotif* of *Siegfried* in Wagner's operas.

For these and many other reasons it would not be imprudent to say that the second volume of Marx has not had a hundredth of the readers of the first, and that the more-perused third volume has not had a tenth. (We are not speaking of purchasers, but of readers.)

Where the popularizations of Marx are fat and full on the first volume, they beat a retreat on the third, except for the theory of profit, merchant's profit, interest, and rent, and are almost silent on the second volume.

The fourth volume, *Theories of Surplus-Value*, has not at this writing received an English dress.

The translations of the second and third volumes of *Capital*, too, though conscientious (and a laborious task for which we must

[2] A better classification would be: Volume I, origin and static laws of profit; Volume II, division of profits by categories, as effected in circulation; Volume III, synthesis of production and circulation in the motion of profits.

ever be grateful), were done by a man with an inward knowledge of German and an outward knowledge of English. Hence care must be used, since some of the sentences are errant as to meaning. New editions are now being prepared, in which the original texts of Engels and Marx are being collated and the translation undertaken by men sensitive to the precise qualities of English diction.

The controversies that have raged about Marx in German, the main vehicle of criticism, have as often converged on the third volume of *Capital* as on the first. We move, then, to the theory of profit as there revealed.

26

The Tendency of the Rate of Profits to Decline

(Third Volume of *Capital*)

The average rate of profits is not a fixed rate. For Marxian theory the development of capitalism itself—from small to large, from diffused to concentrated, from distributed to centralized, from limited to universal markets—presents for each stage a different setting for the play of profits. But above all, it is the change in the organic composition of capital that affects its profits. The larger the constant capital the deeper the threat to the rate of profit. The development of capitalism implies the increasing ratio of constant capital to total capital. We are speaking here of the totality of capital, not of individual producers. If in the total social capital the ratio rises of constant to variable capital, then the rate of profit is adversely influenced.

We have seen that in order to obtain relative surplus-value each competitor sought to cut the prices of his products, by intensifying labor, and so to reduce social value, and yet, by means of his advantage, to increase the mass of surplus-value. We now see the same situation mirrored large.

Since the quantity of surplus-value is increased by the number of workers and the length and intensity of their work, if this is accompanied by a gain in the ratio of constant capital to their wages, it may show a rise in the mass of surplus-value (and so of profits) and yet be the result of a decline in the rate of profit.

We have seen that if the social capital of the United States is 200 billion dollars, and 160 billions are constant capital and 40 billions are in wages, the rate of surplus-value being 50 per cent, the profits of capital are 20 billions, or 10 per cent on combined constant and variable capital. Should the capital grow to 240 billions, 200 con-

stant and 40 still variable, and the rate of surplus-value is raised to 55 per cent, the profits are 22 billions; that is, down to 9.1 per cent on total capital, but 2 billions more in money.

In the United States, the decennial average of profits in manufactures has declined from 25 per cent during the McKinley heyday to 15 per cent after the European war, and yet, despite that decline, the profits of corporations rose considerably in dollars. It may also happen—and this is the point—that it may decline both as rate and mass. This was true of 1929-33.

Larger Investments Reduce Rate of Profit

It is the need of each business to produce more profit that threatens the rate of profit for all. Each puts in as much equipment as it can and tries to have as much raw materials as possible converted by its workers into salable goods in the least possible time. To get more out of labor each competitor invests still more in plant, tools, machines, or, if he is clever enough to get more out of them by Taylor systems or Bedaux systems of efficiency, he must buy proportionately more raw material or auxiliary products to utilize in their speeded-up production.

Thus every competitor, by seeking to cut his costs per unit, brings about the tendency to a fall in the rate of profit for all, and further intensifies the dog-eat-dog competition. The recognition of this inevitable fate, if they do not bestir themselves, is the cause of their drive to exploit labor to the utmost.

For by those means the tendential fall in the rate of profit can be averted for a long time and, for short periods of boom, can even be reversed. The tendential law can never be set aside; it can be held up, it can be pushed back, but it is like the stone of Sisyphus in the Greek legend; he held it up and pushed it uphill, but it had a permanent tendency to push him down the slope. The analogy is exact.

Counter-Tendencies

If the organic composition of capital increases so that the rate of profit is diminished, then, if the labor-power purchased by variable capital can be made by intense exploitation to produce a rate of surplus-value that more than compensates that tendency, the rate

of profit might actually rise.[1] If, too, raw materials are cheapened, as in a crisis, then that reduces for a while the proportion of constant capital required. Also, especially in a panic, the throwing of whole factories onto the market cheapens constant capital investment, and so the rich and knowing men can increase the proportion of variable capital to this diminished constant capital investment, and yet they can begin rebuilding a good rate of surplus-value ("recovery").

But again competition (even between monopolies, but that we can take up later) forces another attempt at increasing relative surplus-value and the constant capital investment and organic composition gains once more, and so the tendential law of a fall in the rate of profit must always recur, only more forcefully than before. More machinery must be installed, or new and costly technique introduced. The term "rationalization" of industry is another expression for this tendency, although also used incidentally for the more intense speeding-up of the workers.

From this ever increasing and ineluctable tendency, fortified by every move in capitalism, every accumulation, every merger and consolidation, certain profound contradictions arise.

This development of capitalism is not to be confused with the valid social aspects of its growth. The gains in production, the increase in equipment, are not in question. It is their deflection in the profit economy wbich the Marxists here analyze.

The Effect of Tendential Fall on Production and Speculation

The increase in the rate and mass of profit is the incentive of industry under capitalism. It is so much taken for granted that the favorite (and honest) objection to Socialism is that under it this incentive, which alone spurs development today, would be absent and so society would fall to pieces if it relied on co-operative adjustments and drives, instead of the personal passion for gain.

[1] It must be recalled that since all capitalists seek to decrease the value of their products, the producer of means of production is reducing prices to the capitalists who buy from him, and so the increase in value of constant capital is offset to the extent of that cheapening. This is true of every stage of production, as to the means of production it provides for the next stage.

That the worker is industrious because of the dread of dismissal and the capitalist prosperous because of the incentive toward increasing lucre are the twin pillars of the temple.

Now, if the tendency is reversed, if there is an underlying bias toward a reduction of the rate of profit, what are its effects on a society which is conditioned socially for its increase? It certainly checks the formation of new capitals. It threatens the growth of capitalist production by its very excess of productive equipment. It brings about overproduction in the endeavor of each capitalist to increase his means of profit by selling as much as he can. It promotes speculation, for as profits become more difficult to make in industry, the deflected money and passion for gain must take another outlet. Since the money cannot be made out of labor, the capitalists strive to outguess each other on the stock exchange and in real estate and in commodity futures. They try to plunder each other, for that is all there is left to do. The frequency of crises is greater, their depth is greater, surplus capital abounds, surplus workers are enormous, until a painful rectification occurs, but one still more unstable, at base.

Since the tendential fall in the rate of profit does not diminish the rate of exploitation of workers, nor necessarily diminish the number exploited (it may, but it does not always succeed in doing so), capital seeks to counter that tendency by employing cheaper labor in the noncapitalist lands, or in backward areas; it is thus able to increase the rate and mass of profits for several years at a time.

Monopoly Control Cannot Defeat the Tendency

The immense centralization of capital in key industries leads to attempts to counter this nefarious tendency of competition by suppressing competition itself and by imposing prices that, if obtained, would enable the large companies to obtain the same rate of profit. But to the extent that they succeed (and they do partially), they close the market for their competitors, and so the *social* tendency to the fall of the rate of profit (that is for all capital, small and large) is not decreased but accelerated.

The tendential fall in the rate of profit is the consequence of the hunt for relative surplus-value, which led to large constant capital

investments and their growing ratios to wages; this in turn led to concentration; that to centralization; what wonder, then, if the ultimate tendency of the larger capitalists is wholly to destroy competition so as to turn back the rock of Sisyphus, the laws of competition, from which their difficulties arose?

They seek to escape from this difficulty at home, by investing their capital in lands (or in backward areas of their own country), where the need to exploit labor with large capital investments in machinery is not yet pressing, for labor is too cheap to be worth superseding at great expense. These natives work for less, for longer hours and more intensively (and also bring in their families); in those countries where a higher rate of profit prevails, a larger mass of profit occurs as well as a higher rate of interest reflecting the scarcity of capital, and where new consumption markets are opened up by this development.

After a time (according to Lenin, since 1890), the principal reliance of monopoly capitalists for countering the fall in the rate of profit is to invest abroad, in the noncapitalist world, rather than in it.

But the same monopolistic power enables them, at home, to dictate onerous conditions to those who supply them with means of production (thus reducing suppliers' profits), and to attack labor. As we shall see in the chapter on Imperialism, monopoly does not escape from the tendency of the rate of profits to fall, it deepens it.

The Marxian theory thus holds that the restrictions to increased activity, which are unthinkable in view of the physical development of the productive apparatus, are caused by their capitalist utilization. The barrier to capitalist production now becomes capital itself. That is what Marx means by his metaphor that capital becomes, in its latter developments, a fetter on production.

Mechanism of Lessening Rate of Profit

The mechanism is as follows: The higher the rate of profit, the less the part of the product at the disposal of the masses that produce value. The social production is based on low consumptive possibilities by the majority of buyers, that is, by workers or their dependents.

The commodities produced are not as salable and large sections of them, since they cannot be sold, fail to realize their surplus-value as money. Capital, resting on the expropriation or even the pauperism of large masses or, at any rate, facing a deficient buying power of most workers, through its constant need for expansion, is driven to augment its productive forces irrespective of the narrow basis of demand for its products.

The tendency toward unlimited expansion (this expresses a tendency never completed) of production, or rather of productive forces, is constantly hampered by the self-expansion of the capital which is already there. For that must be achieved before the new capital can enter the field, before it can supersede it.

If the new productive tendencies or forces grow, they often destroy the older capital which had been seeking expansion. The realization of this tendency, the collision of older and new capital, the tendential fall of the rate of profit, the narrow basis of consumption for products, is already commented on by the classical economists.

To account for this they formulated the celebrated law of diminishing returns, thus putting onto nature what the Marxists attribute to capitalist limitations of innate laws of development, which thus come in conflict with those limitations.

When the rate of profit is practically extinguished, as in Germany in 1932, with no hope for its revival by its own available economic mechanisms, the regimentation of the workers ensues and production is directed toward neither consumption goods nor production goods, but to armaments. But according to the Marxians, however plausible this stop-gap, it must recreate the difficulties of the tendential decline in an infinitely more aggravated form.

27

Commercial Capital as a Participant in Surplus-Value

When buying and selling are discussed, most students think of businessmen who are retailers, jobbers, wholesalers, commission salesmen, etc., rather than of industrial capitalists. True the two functions are often combined as in the General Motors Sales Corporation and in other so-called perpendicular trusts.[1]

There appeared to be a certain air of unreality when the Marxist question was put as to how money becomes more money in the process of circulating commodities, when suddenly the reader was thrust from the movement of commodities back to the employment of labor in production itself.

The unreality occurs because the exchange of goods is effected by merchants. The question is, how do they make their money if nothing profitable occurs in the sphere of circulation, but must originate in production? We know they make money. Yet it is clear that if surplus-value could be made merely by circulating goods, few persons would bother to work their heads off in factories to produce it, and yet tens of millions do.

Now the function of merchants is not wholly in the sphere of circulation. It is, for some of their activities, but for others it is mixed with jobs that terminate production, such as trucking, etc.

But the pure merchant, the dealer in goods—say, by telephone—who buys and sells all day long without ever leaving a desk, still makes money and he has only a few clerks. It is true that he exploits them after his fashion, but his profits, unlike those of the industrial manufacturer, are not related to that exploitation directly, or rather, proportionately. A grain merchant who guesses on the future of markets and the cost of chartering ships and the foreign exchanges

[1] A perpendicular trust is one that attempts to control production of various stages of the production of one commodity; a horizontal trust is one that attempts control of as many factories as possible in one line.

he will require, and at what rate, is likely to make or lose fortunes with little reference to the pittance he pays his billing clerk or his typist. His cables alone usually cost him ten times as much.

Yet the merchant is a gigantic part of the capitalist economy. As Marx says, no one knows if he has surplus-value until it is realized by a sale. Advertising is partly done by producers (national magazine and radio advertising), but newspaper advertising is almost entirely that of distributors. They hire hundreds of thousands in large cities.

In considering the merchant not as a transporter or warehouser but only as a circulator of commodities, we abstract his functions but by doing so we are enabled to understand an interesting aspect of surplus-value. The conversion of values from their form as commodities to their price, or money form, is carried on in the sphere of circulation by the merchant. The merchant's expenses in this connection are often large, but what interests us is the source from which he meets these expenses.

The Time Factor in Merchandising

It takes time to move goods from the factory to the consumer. That time is divided into two aspects, the inevitable lapse due to transportation and stocking in stores for goods to be made ready and available to the whims of buyers. These are part of distribution, that is, the last series in the long annals of production.

But a large part of the lapse of time is due to speculation and pure exchange. It is said that the wheat market in Chicago turns over the United States crop dozens of times a year in active trading. Goods consigned to Liverpool will stay in warehouses for months while they are being transferred to dozens of men who never see them and, sometimes, would not even recognize them.[2]

Thus the services of merchants are a compound of true services and of speculative intervention. A house like R. H. Macy and Co. represents almost entirely the true distribution aspect. A futures trading house in Chicago, Liverpool, or Antwerp is typical of the

[2] I knew a speculator in barley to look at that crop from a railway coach in France and say, "They ought to weed those fields, but they're too lazy." [*Author.*]

purely circulatory aspect. No ethical reference is intended here, nor the much-mooted question of the necessary role of speculation, once given a capitalist economy.

The Economy of Productive Capital

Merchant capital economizes production capital. If the producer of silk goods, say, had to wait a year until his goods finally decorated the fair forms of Paris ladies, he would require $500,000. If he can get this circulation of his goods taken care of by another, he can work with much less money, since he will be in funds as soon, or nearly as soon, as his goods quit his factory. He can use the proceeds to buy means of production and so make a more modest capital do the work of larger capital. But this does not alter the relation of both the merchant who advances the money and the factory owner who receives the sale price, as against the total concept of surplus-value.

For the merchant does only what the factory owner does not do. He cannot take the difference of values except where they are to be found, out of the labor-time given gratis by the silk workers to their employer.

Producers Sell for Less than Value

What happens is that the factory owner ***sells the silk for less than its value***, and so divides the surplus-value with the merchant. Both live on the workers' time instead of merely one; only that the factory owner has the capacity to turn over his capital more often and thus make more profits and the merchant has to make his money out of the purchase at less than value and realize it at value.

We are now speaking in pure economic terms of merchants and factory owners as a class and not allowing for the special guile with which one gets the better of the other or the adroit merchant makes other merchants cede part of their part of others' surplus-value to him by way of "sharp trading." For that does not affect surplus-value as a whole.

The merchant economy is based on buying at less than value from the producer and realizing the value of the commodity and no more from the ultimate consumer.

That he does not reach the ultimate consumer but shares part of his share with a jobber, and he in turn with a factor or even a peddler, and that these in turn split their parts with salesmen in the shape of commissions—all these do not affect the fact that the ultimate consumer pays only the value and that the capitalist in the factory got rid of his merchandise to the first merchant for less than value. (Or, to be more careful, in the commercial world, for "value," read "price of production.")

For the capitalist class as a whole it does not matter whether the merchant capital is advanced or not; it has to be there either in the hands of the producer or merchant who circulates. It depends on who circulates. But the convenience for producers is worth a division of the surplus-value: it is a true aid to turnover and profits.

Now how does the merchant actually make money once this is done? We are speaking of the merchant under modern capitalism, not of the fabled Sir Richard Whittington who exported a cat and received the riches of far lands in return. The cat is in the bag, today, of the average rate of profit.

The Division of Average Profit

The total productive capital is no longer figured on the basis of what the factory owner alone requires. If his capital is $90,000, and the profit $18,000, it would be 20 per cent. But what really happens is that the factory owner would require $100,000 to make his $18,000 if he himself had to wait out the circulation of his goods. He could not get that full $18,000 surplus-value unless he did so. So the rate of profit is really 18 per cent, counting the time between production and the realization of value. But the capitalist is willing to take his 18 per cent, the average rate of profit on the actual productive capital ($90,000). The merchant makes the same average rate of profit (on his $10,000), for if merchants made less their capital would flow into direct production, and if they made more, factory owners would transfer their investments gradually into trade.

That the merchants make less money than the producers, as a rule, is not due to a lesser rate of profit but to a need for less capital, since they must provide no money for plant, machinery, wages, etc., and there is, accordingly more competition. But all this does not

alter the fact that the sum total of goods are sold for the sum total of their values. There is no money added by the process of pure circulation.[3]

Lately the merchant has not been receiving his share of the value, as is prescribed by the law of the average rate of profit. Monopolies tell him what to sell at or lose his agencies. Frequently he has to buy their worthless class of stocks so as to curry their favors. Chain stores are reducing the profits of retailers, in so far as they represent pure circulation, to nothing, leaving him only the recompense of his hour of ordinary labor. Large companies sell their own goods through "dummy" competitors.

[3] What about those who work for the merchant? This applies also to those who work for any nonindustrial capitalist. How is the rate of surplus-value determined, since there is no question of the production of goods?

We must distinguish two types of employes. Those who work in the department stores, for example, and are actually completing the production of merchandise in its last movement to consumption, are subject to the same laws as the industrial workers. But how about those who work for the mere circulator of goods? And, by analogy, those who work for the banker? Or for lawyers? Or for all that varied collection of persons who go to offices every day to work for promoters, etc.?

Their wages are, to use a big word, homologated to industrial capital. They are sellers of labor-power, whether at a typewriter or working with a pen.

Their compensation is reduced to their means of subsistence, for the rate of profit or return of their employers as a class approximates the average rate of profit and would be diminished, exactly as that of the industrial capitalists, if they paid more. But how is that determined, since there is no value being produced, and both live off goods being sold at less than value?

There is a division to be made, though, between the pure circulator or money-lender and his help, which is analogous to the industrial capitalist; the analogy being in the average rate of profits of all employers. Actually the wages of the mass of white-collar workers in the cities (or black-coat workers as they are called in Europe) is exactly the same as that of factory workers in the city in which they live. In New York, the average factory worker received $24 in the boom year of 1929, the average clerical help about the same, or less. In London the average worker made (1938) $14 a week, the clerks about $15. The surplus of labor brings all classes of ordinary labor to the same basis. The average rate of profits compels the capitalist to act similarly to industry. Of course, there are exceptional cases where wages are not related to profit: these are freaks. They do not affect one per cent of office and store help.

We shall see later in our study of finance imperialism that the merchant is slowly going the way of the horse and buggy. But there are still a great many of him and, in some countries, like France, he is really a gigantic economic and political force. Whatever the tendency of merchant capital, whatever its diminished part in economy, it is still very important, and will be as long as capitalism endures.

28

Division of Surplus-Value Outside Production and Circulation

I: INTEREST

In the next section, on interest and rent, we are considering not the division of surplus-value beween two sections of the capitalist class, one the producer of value, or rather the employer of the producers of value, and the merchant class occupied with circulation, but rather with the two types of payment made by the capitalists of either species, producers and circulators, to a group of money-lenders and landlords.

The money-lender assists them in their operations, but neither adds to value nor makes use-value available, nor does he add to the entire social capital although he appears to be the source of all capital, especially in the most highly developed forms of capitalism.

As to the landlord (not the seller of the occupancy of houses but the collector of tribute for the use of the earth), he is an altogether different category, for he has no more relation to production than a highwayman has to savings. Even the state, for its taxes, is, as we shall see later, of service to certain economic groups and renders some smaller service even to the poor. But it would be impossible to figure the economic equivalent of ground-rent.

In discussing interest, we shall take it up in its restricted form for the time being. The immense superstructure of credit and of financing, that is, finance-imperialism, of the domination of industrial capital, or rather the interpenetration of industrial capital by finance capital, these are properly part of a treatment of the present-day forms of capitalism; forms that, though suspected and prophesied by Marx, did not come into being until after his death. The term *interest* here is used as in most textbooks on political economy. It is restricted to the money earned by money on loan, or by money

invested for a long term, but with no direct participation in industry or commerce.

Interest has been historically one of the thorniest subjects of economic theory. The Fathers of the Church denounced it, and Luther stormed as much at money-lending as at the abuses of indulgences. It was so dreaded that the name of usurer became one of the horror words of literature. It never conjures up the idea of a decent human being, even in reactionary minds.

But in the seventeenth century it was tolerated, in the eighteenth even exalted, and is now perfectly domiciled. Few bankers think of themselves now as anything but the motors of economic activity, the beneficent spreaders of savings, the one group of capitalists whose eyes, not myopically fixed on one industry, embrace the earth and the heavens and who because of this universal vision scatter credit right and left where it should fall.

Only when there is a fearful crisis do they invoke and admit the existence of forces beyond their control.[1] Those who read the dithyrambs of Walter Bagehot in *Lombard Street* can appreciate the unction of money.[2]

Now what do the bankers really do? Money does not create more money. If it did it would not be invested or loaned; dollar bills would wait nine months and bring forth after their kind and gold pieces would ooze out dollar coins from the edges of double-eagles.

No, money is loaned to producers and circulators of commodities, or (but this follows in a later chapter) to speculators who guess at what are likely to be the values created through production and manifested through circulation.

The capitalists pay out a *part of their profit* for the loan of capital, for money is capital. It does not matter whether a producer or a merchant does this; he is parting with some of the surplus-value created by labor for the accommodation of a loan.

Why does the capitalist borrow? Because he can make more

[1] The writer has been in international banking from 1910 to 1937, with few intervals. [*Author.*]

[2] The best history of theories of interest, despite bias and inaccuracies, is still the learned *Capital and Interest* of Böhm-Bawerk (London, 1889).

profit for bimself by so doing. For example, with $100,000 he can employ 100 workers and produce $20,000 in net profits. But if he borrows $100,000 more from the bankers then he can employ, say, 200 men (this is not always strictly in proportion; it will do only as an example of the principle), and make $40,000. He pays the banker, say, 6 per cent for the loan, that is, he pays him $6,000 a year. He gives the banker, in security therefor, a pledge or, in other words, a conditional sale, of his factory, raw materials, etc. The banker takes a very slight risk, as be has security (at least in theory) far beyond the amount of his loan. The capitalist then makes $40,000 less $6,000 on his own capital, or 34 instead of 20 per cent.

So long as he can do this there is a brisk demand for money. But the capitalist class as a whole cannot do this since it is clear that all capitalists cannot use more money than there is the possibility of utilizing in extracting surplus-value from employed labor. Certain capitalists utilize this and others do not. As a class, they can live only on so much surplus labor, but bank loans help to decide which of them will get more of his share of the social total.

Interest Must Be Less than Profit

Interest arises out of the possibility of profit, and except at crazy and short-lived moments, it cannot rise higher than the rate of profit, or, rather, the rate of anticipated profit. True, in speculation, this can be exceeded. Over-ripe and overextended gentlemen who hope that they can outguess the stock exchange and their hosts, the welcoming brokers, get into trouble when the values run the other way. They will pay insane rates of interest, merely to survive. But that is in the nature of *ransom,* not of economic interest. Ninety-nine days out of a hundred interest is far below the average rate of profit, and on only one day in a thousand is it seriously above. Production of commodities is capitalism, whatever its froth may think, and profits on commodities must exceed the rate of interest, otherwise the capitalists would not be able to use money-loans.

Loan Capital Receives Less than Average Rate of Profit

Why does loan capital, then, accept a rate of interest below the average rate of profit? Would not the banker follow the economic

law that if the average rate of profit is higber in industry he would shut bis bank and go into fabricating lipsticks or suspenders?

First, let us recall that, unlike the merchant, the banker is outside of the production-circulation process. He neither completes nor adds to social capital as a whole.

He channels money but does not augment it. To participate in the equalization of profits, one must be in the realm where profits are produced. The banker must choose to stand inside of the production of surplus-value or outside of it. He chooses to stand outside.

But that does not affect his psychology. Economically he cannot participate in surplus-value, except to be paid out of it, but why does he not abandon standing outside of it to get inside? Because be participates in the average rate of profit, or rather obtains it by another route. Most money is loaned by bankers. The individual usurer or money-lender preys on salaried people without security. Or he is a pawnbroker or a discounter of installment paper. These "industrial loan" people charge more than the average rate of profit, because their operations are petty and economically are not loaned against realization by surplus-value. But today all commercial and industrial loans above peanuts are made by bankers or giant investment corporations.[8]

[8] This treatment of loan capital does not cover savings banks, or building-and-loan associations, or life insurance companies, especially the so-called "mutual" companies. Nor does it cover the auxiliary functions of banking. The reason is that this book covers only Marxist economic theory, and these types of institutions are covered, as to functions, in many admirable manuals of economies. Some Marxian aspects, though, are interesting.

Savings banks invest in four things—the right to collect rent, taxes, railway fares or charges, and public utility rates. That is, they lend on mortgages, government and state and municipal bonds, railroad bonds, and public utility bonds. The life insurance companies do likewise. They come as near as possible to the pure rate of money-loans, irrespective of short-term factors. In exchange, they have the right to demand short-term delays in payment. These banks and insurance companies are not directly interested in an increase in the rate of surplus-value, for they hold no properties that depend on variations in that rate. They are tied up merely with the basic phenomenon of profit, not with its dynamics. The industrial insurance companies, though, by their excessive policy charges, are a burden on wages.

Building-and-loan associations are different in function and are hard to describe because they vary so much in legal shape from state to state and

Bankers Participate in Average Rate of Profit

A banker loans out deposits, which he owes to his depositors. Banking is one of the few businesses in which a man is permitted to alienate property he owes to others, obviously because there would be no motive in his owing it at all unless he proposed to lend it out. Hence his average rate of interest on what he *owes* will be less than the average rate of profit, but not on what he *has*. A banker has $1,000,000 capital, $10,000,000 deposits. He lends out the deposits at 4 per cent, say. He receives $400,000. He pays his depositors 1½ per cent, say. His money costs him $150,000. His expenses are $50,000. He makes $200,000 as the difference, or 20 per cent on *his* capital. Thus he obtains the average rate of industrial profit, although his interest must always be less than that average rate. (We disregard his profits in selling securities; that will be given in the section on finance-capital. We also disregard the "cheap money" devices of magicians like the English Chancellor of the Exchequer, Neville Chamberlain, in which the alterations of production are sought to be stimulated from the area of loan capital.)

Since interest is a part of profit, and does not rise above it, neither can it fall to zero, for there would be no motive then in lending money. At times of either stagnant trade or, as is now the fashion, of artificially cheap money, short-term funds amply secured by salable securities, are loaned at less than 1 per cent per annum.

country to country. But they have some curious consequences for workers. One is, for example, a reduction in the wages of labor.

In England there has recently been a "build your own home" campaign, far wider in scope than in America. The worker has paid about $3,500 on the average for lath-and-plaster Tudor shacks, built in ribbon series. Every week he pays, say, one pound ($5) for principal and interest. This goes on for 25 years, to include interest "rates" and charges. If he pays rent be pays 12*s*. 6*d*. a week, that is, about $3. For years he pays $2 a week to the building-and-loan society more than he would have paid for rent, but he is becoming an "owner." Actually he is losing $2 a week to acquire a property that will be junked in 25 years under a slum clearance act and wholly depreciated. In the meantime this wretch is financing "recovery." This shameful business has reached billions of dollars. Engels's *Housing Question* should be read for a philosophical study of such illusions. The British have discovered that you can pay "good" wages if you take it all back.

The Tendency of Interest Rates to Fall

But even at these times commercial capital is rarely obtainable for less than 3 per cent, usually it is 4 per cent even when money is cheap. One great historic tendency must be noted. Since the tendency of the rate of profit is to fall, the tendency of interest, which cannot exceed it, is to fall also, and it is notorious that the more highly developed a capitalism, the cheaper is money, the lower the rate of interest. The average rate of government interest was 8 per cent in 1690, 5 per cent in 1810, and is now slumping to 3 per cent or less wherever currency is reasonably stable and industrial development high.

The lender of money is wholly divorced from production. He sees money become more money and he never sees the intervention of labor at all. The investor, who is (whatever the alleged form of his partnership) really a lender at long-term, is in the same position. Both invest *X* funds and receive *X′* funds. This tinctures their thinking. They nearly always believe that the secret of cycles of business is to be sought in finance. An interesting example is the financier and head of an insurance company, Mr. J. M. Keynes, whose theories converge on finance and to whom all production is a function of available money. The Marxian analysis opposes this derivative point of view.

It must not be forgotten that the great mass of deposits of commercial banks (and even private banks) are those of the commercial and industrial capitalists who borrow from these banks. Hence there is no clear-cut opposition between the money-lenders and the borrowers as is often pretended. Business may be subject to an "autocracy of credit" but it gives the autocrats their weapons.

The Position of the Rentier

It may be asked: True, the banker makes the average rate of profit on his loans, since that rate is computed on his capital, but how about the ordinary saver in a savings bank or purchaser of government bonds? They certainly make less than the average rate of profit; they receive only, say, 4 per cent, when the average rate is 10 per cent. But their capital is generally too small to be used in extracting surplus-value: they could use it only in a business

where their own labor would be primary, or that of their family. We have seen the minimum number of persons that must be employed to allow for surplus-value for the capitalists' excess consumption, for the conservation of capital, and for its increase. It can rarely be less than eight employees. Short of this, money cannot command the full rate of surplus-value and the expansion of capital to produce more surplus-value.

The little people, as the French call them, must lend their money cheaply to the big people who, with the tendential fall in the rate of interest, are always giving the little people less for the use of their savings, except in panics and inflations, when they take the savings away from them altogether.[4]

II: RENT

By rent is meant the annual price paid for the use of the land, whether as unimproved agricultural land or (which is infinitely greater in price) the sites or building lots in cities. It also includes the use of forests, mines, etc., but these have to be separately considered, as there is a question of wastage of resources here. But for our purposes rent is the payment for that use of land which arises outside of any improvements in it, whether of fertility of buildings.

As we shall see, rent need not be paid; it may inhere to the landlord who uses his own soil or site. In order to isolate rent from other economic payments, we shall assume that one person pays it and the other receives it, and secondly that in farming one person owns land and the other works for him. This is not essential to the problems raised; it is merely a pedagogic aid.

Differential Rent

Lands are unequal in fertility. Let us say that $20.00 is invested in an acre of very fertile soil, and then in three other soils of gradually diminishing fertility. The number of farmers is equal, as is the time they work. The yield of wheat per acre will be 40, 30,

[4] This does not pretend to be an exhaustive account of the theory of the rate of interest. Heroic efforts have been made to relate its fluctuations to a theory, notably by Prof. Irving Fisher of Yale. Marxist science has, for its purposes, not stressed this study, which is merely peripheral.

20, and 10 bushels on the respective parcels, say. The farmers will sell their wheat in the hope of realizing the average rate of profit. The price of production of the first lot of 40 bushels is $20.00 plus 20 per cent, if that is the average rate of profit, and also it is the price of the 30, 20, and 10 bushels. The price of production per bushel in the first lot is 60 cents, of the second 80 cents, of the third $1.20, of the fourth $2.40 (this last is an impossibly high price for wheat, but the seale is taken to make the problem easy for comparative magnitudes). What will be the selling price (not the price of production) of the wheat per bushel?

It might be thought that it would be determined as in industry. If relative surplus-value is improved in any one industry, the producer who has the advantage obtains a higher surplus-value, for the time being, but that attracts new capital which brings down the differential advantage. But that is not so in agriculture, for here the soil is fixed in area; one is better than the other but new soil eannot be created, and the full dosage of eapital has been put into each acre to begin with.

The price of the wheat is determined by what ean be raised on the worst soil, that is, the worst soil amenable to cultivation within the limits of effective demand. There the wheat costs $2.40 and still finds a market. Hence on the worst soil the farmer receives $2.40 × 10, or $24.00; on the next best, $2.40 (the price of wheat on the worst soil) × 20, or $48.00; on the next $2.40 × 30 or $72.00, and then the very best, $2.40 × 40, or $96.00. The net profit above the $20.00 invested per acre is $4.00 on the worst soil, $28.00 on the second best, $52.00 on the third, and $76.00 on the fourth. Whether the landlord tills the land and gets it himself or whether the tenant tills it, this differential does not go to the labor on the farm, but to the landlord. That is differential rent.

Rent Is an Extra Surplus-Value

Rent is not like interest. That was paid out of profits. Rent is paid out of the surplus-value arising from the labor of the farmer. It is an extra surplus-value resulting from the differing results of equal labor.

If the price of wheat, though, falls and the most that wheat will

realize is $2.00, then the poorest soil is not worth cultivating and differential rent falls all along the line. For then the $1.20 producer becomes the poorest land from which differential rent can be reckoned.

Urban Ground-Rent

This type of differential rent is most common in agriculture. But in actual money it is far exceeded by the differential rent of position, that is, the rent of building lots. There is nothing either more beautiful or exquisite or fertile in a lot 100 × 100 at the corner of Broadway and Wall Street, New York, or Madison and State Streets in Chicago, than there is in the same lot at the corner of Main and any other street in Hohokus, New Jersey.

But the ability to sell goods at Broadway and Wall Street, or to be near where money is made, makes the same naked plot worth millions in one place and hundreds in Hohokus, and worth dimes in a remote village in Arizona, and nothing at all in the sagebrush desert. In terms of value [5] all the farm land in the United States counts for little indeed compared to the rental value of city land. In New York City acres that yield more than a million a year in differential land rent are common. It would take 200,000 acres of good Ohio farming land to equal that in net rental value per annum. The worst soil or the worst location, from which all others are reckoned, may yield a small rent, but that is absolute rent, not differential.

Absolute Rent

Land is limited in quantity. In any given area, any economic area, it is completely limited even in availability. Its ownership, not being subject to more production, is an economic monopoly. Capitalists as well as workers, in so far as they pay land rent, are tributary to a monopoly.

For the worker it is a means of reducing the articles of consumption, of diminishing his means of subsistence.

For the capitalist, the payment of such rent must be made in any case, and it is an absolute rent he must pay, as well as a differential rent. He pays for the monopoly of the soil, even of the least available soil.

[5] Used popularly. Land has no value.

Nor does he escape the payment of rent by buying land. The price of land is the capitalized rent. That means that if land yields $6,000 a year, and is taxed $1,000, the net annual rent is $5,000, and if the prevailing rate of interest is 5 per cent, the land is worth $5,000 × 20, or $100,000. The capitalist who buys land for his factory is paying the rent for twenty years in advance. After that he really becomes a landlord himself. But, as he has lost the use of that money for twenty years, it really works out that he has paid rent in perpetuity by the amount of the capitalized annual rent. Now comes the question, why will the capitalist pay the absolute rent? Why should he pay high rent and thus diminish the average rate of profit when he can invest in an industry where rent is a very minor factor and make that average rate? Yet capitalists pay fabulous rents for mines, fine farms, etc. Do they reduce the rate of profit by that payment or not?

Low Organic Composition of Farming

Now absolute rent, we have pointed out, is a form of rent, and rent is an extra surplus-value. Take farming, for that is how most land is used (a great deal is unused). Agriculture has a very low organic composition. The constant capital is small indeed compared to the labor put into farming. It is beginning to increase with the purchase of tractors, etc., and to that extent is diminishing absolute rent, since the land needs to employ more capital per acre. But up to the present time land has been far more a matter of new value added by labor with each crop or through dairying than it has been of transferring the means of production into the crop. It does not follow the same law of profits as industry. Let us take a concrete example.

A factory has invested in it $100,000, of which $75,000 is constant, $25,000 is variable, capital. If the surplus-value rate is 100 per cent, profit rate is 25 per cent.

A farm has rarely so high a proportion of constant capital. Say the investment of $100,000 is $50,000 constant, $50,000 variable. The rate of surplus-value is 100 per cent. Now let us eliminate landlordism, and what do we have? Total industrial and farming capital, that is, total social capital, $200,000; total surplus in both activities $75,000. That is, a rate of profit of 37½ per cent on the average.

But this is not the case. The average rate in industry was $25,000 on $100,000, or 25 per cent. The capitalist in agriculture does not do better than in industry despite the fact that the rate of surplus-value is higher, because his variable capital is a higher proportion in agriculture than in industry. He must accept 25 per cent rate of profit in agriculture instead of the 50 per cent he has made, because the monopoly of land enables the landlord to collect the differential between the rate of profit in industry and that in agriculture. In other words:

The absolute rent of land is the surplus of profit in agriculture above the average rate of profit for industry.

It follows that if there were no monopoly of land, the profits of capital engaged in agriculture would be higher than they are today and thus there is a great deal of sympathy for schemes of land nationalization (though with compensation) among the liberal bourgeoisie. Even among the classical economists such as John Stuart Mill, this hostility to landlordism has been manifested.

Absolute and Differential Rent Distinguished

From the theory of differential rent and absolute rent, Marx is able to explain critically the price of land. Land has no value, since no labor is incorporated into it. But it has a price. The capitalization of the rent is composed of differential rent, whereby the landlord capitalizes an excess surplus-value, and the absolute rent, whereby he takes the surplus profit in agriculture over the average profit in industry, when such a difference exists.

Capitalization of Rent

What follows from this? One, that as the rate of interest falls, the price of land rises for the same rent. If rent is $5,000 a year, and money is worth 5 per cent, land sells for $100,000. But if the standard rate of money falls to 3 per cent, land that brings $5,000 a year will compete with government bonds that produce the same, and such bonds will cost $166,666.

Landlords know too that the rate of interest has had a tendency to fall, and those who sold their land only at the prevailing rate of interest were not the gainers thereby. Hence, as the rate of profit

has a tendency to fall, and so the rate of interest to fall, the price of land has a tendency to rise beyond the rent basis for such a rise. But the rent too has a tendency to rise with gains in population and industry.

The greater need for money to buy land is a grievous burden on the capitalists who, in so far as they are not landlords, resent this division of surplus-value with a wholly "non-productive" class.

That accounts for the popularity among the smaller capitalists of theories, such as that of Henry George, that the rent of land tends to absorb all profit and to pauperize the laborer and despoil the capitalist.

According to this hypothesis the rent of land is the sole beneficiary of progress. It records all social gains, since it is a monopoly and it appropriates them. From this, the single-taxers, as the followers of Henry George are called, have evolved the quaint and plausible hypothesis that were this rent of land made common property the capitalist and the worker, having lost their common vampire, would both flourish and there need be no conflict between them.

Organic Composition Increasing in Agriculture

Before examining some aspects of this theory (it would take too long to uncover its extremely tenuous though humane reasoning), we must note that there are two factors operating in the other direction in respect of rent. The first is the gain of heavy investment in agriculture. As machines are used more and more, the organic composition of agriculture is beginning to approach more nearly to that of industry. If this tendency is not checked, and it seems rather to be gaining, absolute agricultural rent may end of itself. For if there is no greater profit in agriculture than in industry, due to a different organic composition, then the landlord will be reduced to differential rent.

Effect on Absolute Rent

It may seem surprising to those who think of the rich lands of Illinois and the sparse lands of South Carolina, to know that the difference of fertility in land, near to the same markets, with similar

transport and labor charges, is not as large as people think. The proportion of absolute to differential rent is very high. Hence we may see absolute rent (and that means most rent) imperiled in agriculture, and to that extent, the higher price of land, due to lower interest, counteracted.

Also, in cities the tax on land is rising with greater civic needs. Hence, since rent of land is always net of taxes (taxes on land cannot be shifted, for land already charges a monopoly rent; taxes can only serve as a deduction), wherever taxes are increased, the net rent that can be capitalized is diminished.

But so far the advancing rent of land, coupled with lower rates of interest, have more than outweighed these two restraining factors.

As to the single-tax argument, it is enough to point out that the rent of land, whether differential or absolute, is derived in the long run from the hours of labor given gratis to the capitalist and it is no alleviation to the worker that this differential would go into one pocket, the capitalist's, instead of to the landlord as well.

The other argument, that labor would receive the wages it could get working for itself on the best free land, and that that land, once rent were socialized, would be the corner of Forty-second Street and Fifth Avenue, New York, is negated by the existence of rent at all. So long as rent has to be paid—and under capitalism differential rent must be paid for the advantages of location, whether it is in the coffers of the community or of the landlord—it is effectively the same situation as far as the worker is concerned. He works without capital for a capitalist who pays differential and some absolute rent. His condition is unchanged.

But the taxation of land-values (as they are mistakenly termed) would reduce the burden of agricultural investment. Any cheapening of land helps the investment and mobility of agricultural capital. Marx holds that the laws of capitalist development, while they are deflected and varied in agriculture, are basically similar, in their general outline, to those for industry.

The Law of Concentration in Agriculture

The question basically relates to the "decisive branches of agriculture." By these Marx means the production of grain (wheat, rye,

barley, corn), of the fodder crops (hay and other grasses as well as feeder corn), of cotton and tobacco and coffee and rice and bananas —in short, of nine-tenths of the crops of the earth—in money-values. Whether cocoa or rubber, technical crops for raw materials, or food, or clothing, or mass pasturage of sheep and cattle, or mass dairying, or giant fruit farming, or wine-grapes, all these he holds subject to the great tendencies of industry. On the otber hand, truck farming, where crops of large value are produced in small space by intense and unremitting labor, may not exhibit these tendencies, but then neither does fine bookbinding, nor etcbing.

This contention of Marx is the one most bitterly attacked by the Socialist *revisionists,* especially their agricultural expert, David. The analyses of Lenin will be referred to later on the Marxist side.[6]

The Marxians contend, for example, that out of five million farms in a highly developed agricultural and industrial economy like Germany, 3.5 millions are below ten acres and the majority of these farm owners have to do other work for a living. Farming is thus a help, but not an exclusive occupation, to several millions.

Among the remaining farms, those above 100 hectares (200 acres, roughly), to the last one, practically, employ ten laborers on hire, the same as with any other proletariat. So the large farms are capitalistic, the small farms not altogether farms. Between these two there is a large middle group, but it is being reduced.

The opponents of the Marxian hypothesis now contest such figures, not so much as they did formerly, as economic ones, but as minimizing the survival socially of large bodies of peasants, who feel that they are independent enterprisers and who are hostile to socialism. But this aspect takes us outside the limits of this book on Marxian economic theory.

Only in countries where farming is obviously capitalistic—like England, where two thousand lords and "gentlemen" own most of the soil—is the Marxian hypothesis practically uncontested.

In England, too, the traditional ceremonial aspects about land transfer were so burdensome that a general clamor changed them slightly several years ago and focused attention on the concentration

[6] The debate on agriculture led to the first expansions of Marxist doctrine by Lenin.

of ownersbip As the greatest historian of land tenure wittily observed, "There are some vestiges of reason in the English Land Law, but accidents will happen in the best regulated of museums." [7]

American Farming Concentration

In the United States farms of more than 1,000 acres, although 1 per cent of all farms in number, contain 25 per cent of total farm area. Tenant farmers are over 40 per cent of all farmers, and the mortgages on a great many farms of medium size act as a rent burden, in effect, against the working farmer.

How many farms in the United States are paying enterprises, between twenty acres and two hundred acres, free of too burdensome debt, and employing only a few or no workers apart from the owner's family itself? This is the American farm of tradition. A great many, say the anti-Marxians; a constantly shrinking number and of lessening importance in production, say the Marxians. The output per man increased 50 per cent in twenty-five years; that points to a change in organic composition against the small farm. This is the Marxian explanation of the mechanism by which this process is accelerated:

The Marxians point out that the formally independent farmer is often working for usurers, mortgage companies, feed companies, tractor companies, etc., and that when his accounts are squared his means of subsistence, at least for millions of farmers, are comparable to those of the wage-worker. For the Southern states, this is undoubtedly true; it is still contested as exaggerated for the older Middle West and the more prosperous farming sections of the Middle Atlantic states. For the Marxists, the small farmer produces hours of labor gratis for others; he is a donor of surplus labor-time like the worker.

Marx pointed out that land nationalization would technically assist the capitalist farmers and the capitalists generally. Private property in land was a feudal survival that hampered their development. But socially they cannot permit this, as an annihilation

[7] F. W. Maitland, whose historic works are gold mines of economic fact as exhibited by law.

of tens of billions in "values" would be a precedent they dare not establish, even for their own good.[8]

NOTES ON AGRICULTURE:

(*a*) Collateral aspects of agricultural theory are legion. A subtle point of the Marxists is that the small holding, by reason of not sufficing to nourish a family, increases the supply of cheap labor in the rural districts to the big farmers, and thus hastens the concentration of agriculture. What appears in statistics as "ownership" is a weapon of pauperization. Its legal character, property, is the reverse of its economic character, a lever of low wages.

(*b*) The Marxians, too, argue that the principal reason why the tempo of agriculture has been slower than that of industry, as to concentration, is not at all in the mechanical differences involved. The small properties, tenancy, peonage, mortgage debt, etc., under the guise of title deeds, etc., are a barrier to technique in the way that the rules of the guilds (so long as they could be sustained) prevented the development of the industrial system. Legal rather than mechanical factors have been important. Centralization, however, by assisting mechanization, must reach a point where the industrial costs are so lowered that the technical development will no longer be at an even tempo, but will take a leap, and agriculture be mechanized with incredible rapidity.

(*c*) It is stated by Corey (*Crisis of the Middle Class*) that farmers whose holdings are insufficient for a living are, with tenants, 4,300,000 (and farm laborers are 2,600,000), whereas rich and successful farmers (without reference to their debts) appear to be about 1,900,000. Clearly concentration is taking place. But the percentage of survivors is still higher than in manufactures.

(*d*) The decisive criteria for capitalism in agriculture would be the capital investment used in farming, the employment of machinery, either per acre or per man, depending on which was the significant, and the number of wage-workers employed. As to the latter, the evidence is all in

[8] They do this only when it is the life of their system that is at stake. The necessary imperialism of the slave system as against their own, allowed them to see four billion dollars in slaves wiped out, to end the costly rivalry.

favor of the Marxians; there is a considerable rural proletariat even in the United States. Nor is it possible to deny that the "hobo" or occasional labor, used for harvesting, etc., is a departure from the tradition of independent farming, and assumes an unattached proletariat. Lenin pointed out that between 1900 and 1910 in the United States the number of rural wage earners increased by 27 per cent while that of farmers increased by only 5 per cent. There must have been a considerable transfer of independent farmers into field workers, paid by wages.

(*e*) The cost per unit of the great money crops is considerably less on farms where there is a large capital investment than it is on those that rely on manual crops (except in truck farming). Hence, the mechanism of prices that effected concentration in industry is beginning to operate in agriculture. This was not necessarily so a hundred years ago, when no matter how intensive a capital investment on the Atlantic seaboard, the opening up of free black-loam soil in the Mississippi Valley made the little man often as cheap a producer as the patroon in New York State. As land becomes more settled, the influence of capital on costs grows proportionately.

(*f*) The Marxians need to prove concentration of ownership, increase of tenancy, increase of debt, number of farmers requiring industrial means of employment for a subsidiary living, reduced costs due to capital investment in agriculture, increase of wage-labor. On the whole, statistical demonstrations point to the tendencies being pretty much their way, but the question of the speed of this development and the importance of traditional factors in limiting the speed of application of capital invesment (as against industry that was relatively freer), remain the moot question, socially rather than economically.

29

Social Accumulation of Capital[1]

We have hitherto considered the accumulation of capital, as realized in the sphere of circulation, as a theoretical concept, but the price of production as descriptive of the total movement of profits in reality. The theory of total accumulation—that is, of the reproduction of the entire capital structure—in reality is the final control of Marxist theory set forth in the third volume of *Capital.*

Why a Special Theory Is Required

The theory of the three factors, wages, rents, and profits, allows nowhere of the possibiliy of a *social* reproduction of capital.

For this theory assumes that all three partners in production (it also assumes that the capitalists and landlords contribute to production) consume the resultant product by way of distribution, the worker by means of subsistence, the landlord and capitalist by articles of necessity and luxury both.

But, on this theory, the amount of capital reinvested in enterprise is not accounted for, save by declaring it to be an abstinence of the capitalist from consumption. Apart from merely psychological theories (or rather ethical theories like "abstinence"), we require an *economic* theory that tells us what there is in the continuous production of labor that enables a part of that production to be utilized for consumption and a part for means of production.

For the capitalist cannot, by any chemistry known, convert his means of consumption, even in the form of surplus-value, into means of production, *socially.*

A given capitalist can produce candy, or mayonnaise, as surplus-

[1] This difficult chapter is indispensable for students specializing in economics. It can be eliminated by those desiring to study only Marxist outlines.

value products, and instead of gorging himself with these products of labor, sell the excess and buy machinery with the proceeds. But unlike bourgeois economics, which flatters itself that it has an answer both by abstinence and by purchase, Marx realizes that for the totality of production, this is no answer at all.

We must explain, then, how it is that the entire labor of a country provides means of production and consumption both, how these are divided, what part capitalists consume as revenue and what they reinvest. *No interchanges between individuals are significant for this enquiry.*

The Two Characters of Labor the Key

By his theory that concrete labor *transfers* value and abstract labor creates value, Marx begins his examination. Let us consider a manufacturer of *means of consumption,* say dresses.

He produces $100,000 worth, sold at their value. The constant capital transferred is $60,000, the variable capital is decomposed into $20,000 means of subsistence for the workers, and $20,000 surplus-value.

The capitalist requires $60,000 in constant capital, of course, to recommence production on the same scale. He has sold means of consumption to the extent of $100,000 and must obtain means of production for $60,000. These are concrete means of production, cloth, thread, patterns, etc. These concrete means of production mean, of course, that other enterprises exist that make a business of these means of production.

The capitalist uses $20,000 to buy the use of labor-power. They too (the workers) must find, somewhere in the social capital, those who furnish them with means of subsistence, produce these necessities.

But the capitalist has no need, strictly speaking, to reinvest the $20,000 of surplus-value, that part of the new value created, into the purchase of the means of production; he can take these proceeds of the means of consumption he has sold, to wit, dresses, and with them buy other means of consumption, such as Packards and champagne.

The Manufacture of Means of Production

Suppose, however, we take the manufacturer of iron pipes, good only for use in producing something else. Let us assume the figures of production and their division are the same as for the manufacturer of the means of consumption. But the production cannot be consumed, as such, by either the capitalist or the workers. They are in a different sphere of production, that of means of production.

That is, their production is of use only as capital (as constant capital). It must be employed in the reproduction of capital. It can find a market only if the constant capital it is to replace has already been transferred.

Hence, the manufacturer of the means of production requires, ultimately, that the other branches of industry shall be active. For he depends on renewal, and renewal depends on the sale of previous merchandise.

Two conclusions are clear. For accumulation to be possible in any enterprise, social reproduction is assumed: that is, a reproduction of capital in a series of related enterprises, at the least, and these depend on general business to keep going.

Secondly, apart from the division of production into transferred constant capital, wages, and surplus-value, it is necessary that commodities exist which by their utility—that is, their specific adaptability to production—can replace the constant capital utilized in previous production. So that for total accumulation, it is necessary that the total production of society have a determined composition, not only as to *value,* but as to *specific utility.*

How the Two Sections Operate

Up to this point we have a mere résumé of what was previously known. But for the motion of capital we simply need to know that commodities are made either for consumption or for production (the latter, constant capital, therefore).

Let us suppose that the total production of the United States is $90,000,000,000. Section I (means of consumption) has a value of 33⅓ per cent, and Section II (constant capital) of 66⅔ per cent. Let us assume the following divisions:

Section I	constant 20 billions, wages 5 billions, surplus-value 5 billions = 30
Section II	constant 40 billions, wages 10 billions, surplus-value 10 billions = 60
Total	constant 60 billions, wages 15 billions, surplus-value 15 billions = 90.

Here we have the division by value of two sections of production divided according to specific utility in production. Concrete and abstract labor are shown as reproducing constant capital (concrete labor), 60 billions; variable capital (abstract labor, new value), 30 billions. The total of means of production is 60 billions, that equals constant capital; of means of consumption 30 billions, that equals total wages and total consumptive revenue of the total capital. This *addition,* which makes all sections *congruent,* is not a mere summation; it is a check-up on total production by the separation of the two kinds of labor cutting across the two modes of production, and yet combining them significantly.

If Section II is to be *realized,* its production must be sold to Section I. For Section I, the production must be realized by way of sale to wage-workers and capitalists for consumption. Both must be realized, Section I because otherwise there would be no sale of consumption goods. For Section II there must be a realization by Section I, otherwise their constant capital has no possibility of being utilized, since means of production are not an end in themselves: the end of production is consumption.

We see, then, that the sum total of constant capital in both sections of production must equal Section II as a total, and the amount of variable capital (including surplus-value) must equal Section I as a total. The constant capital is an accumulation of objects of *concrete utility* to the producers of Section I; thus the amount of value that is transferred as constant capital by concrete labor is equal to the total of Section II, and the amount of value created by abstract labor is equal to Section I, as amounts, but their disposition cuts across the two sections of production.

But, of course, since means of production are used internally by manufacturers of means of production, such as coal for steel-makers,

a part of the constant capital is used within Section II before the total production of means of production is made available to Section I.

Means of Consumption Specifically

Since workers employed in the manufacture of means of consumption purchase these means out of the production of that sphere, it follows that a part of Section I is realized within that sphere: it is that part represented by new value created by abstract labor (that is, wages plus surplus-value).

The Two Sections as an Ensemble

The internal consumption of these two sections can be shown in parentheses. Section I, 20 billions constant (5 billions variable, 5 billions surplus). Section II (40 billions constant), 10 billions variable, 10 billions surplus.

In Section II 20 billions is not realized: for these are in the concrete form of means of production and cannot be consumed as such by the workers or the capitalists. Nor can it be used as means of production within the section, for the 40 billions has provided this. Hence the 20 billions must serve as means of production for manufacturers of means of consumption.

But in Section I the 20 billions of constant capital transferred has not been realized within the section. As it consists of consumption goods, it cannot be utilized for more production. It is clear, then, that the 20 billions surplus of one section must be exchanged against the 20 billions surplus of the other.

Details of the Relations of the Two Sections

The capitalists of Section I buy 20 billions in constant capital from those in Section II.

In other words, the new value added by abstract labor in Section II is being realized by means of money sales to Section I.

Out of these receipts the capitalists of Section II spend 10 billions in buying the consumption goods of Section I.

Out of these receipts the capitalists in Section II spend 10 billions in wages, which their workers use to buy consumption goods from the capitalists of Section I.

By these means the relations between Sections I and II are terminated. This is what we term the scheme of *simple reproduction,* or the realization of all sections of production at an equivalence.

Hence Marx has completely shown how concrete labor, in the shape of utility and the transfer of value, has interpenetrated with abstract labor, in the shape of new value. Or, summarized in a formula:

> *Simple reproduction requires that the sum of variable capital and of surplus-value in Section II (means of production) be equal to the sum of constant capital in Section I (means of consumption).*

Law of the Extended Reproduction of Capital (Accumulation)

We have assumed, for illustration, that the capitalists consume their surplus-value. But, although this would explain reproduction of capital (that is, the provision of *total* new capital after a certain time by the workers, but not the increase of that total), the student is aware, by now, that a portion of that surplus-value must be reinvested, if the quantity of capital is to increase.

In order for this to take place, it is necessary that the sum of the variable capital and of surplus-value in Section II (means of production) be somewhat larger than the sum of constant capital in Section I. A formula makes this clear:

Section I, 15 billion constant, 7.5 billion variable, 7.5 billion surplus.

Section II, 40 billion constant, 10 billion variable, 10 billion surplus.

As in the means of consumption (I), constant capital is now less than the sum of variable capital and surplus-value of the means of production section, the capitalists of Section I will not demand the full sum of 20 billions from those of Section II, but will convert a part of their surplus into capital. This must originate in Section I, as consumption is the end of production, for realization.

But suppose the capitalists of Section II also accumulate half of their surplus-value, that is, 5 billions. Assuming the organic composition of capital unchanged, they can add to the previous total of

40 billions in constant and 10 billions in variable by 5 billions, divided as follows: 4 billion to constant and 1 billion to variable capital. Hence in Section II (means of production manufacture) 44 billions will now be consumed within the section, as constant capital transferred. Only 16 billions, consisting of 11 billions variable and 5 billions surplus, would have to be realized in Section I. (The assumed reduction of surplus-value from 10 to 5 billions is absurd, but the illustration is of principle; the actual results will be given later.)

Now let us assume an annual cycle of production, for all society, so as to obtain the actual movement of capitalism. We began with 40 plus 10 plus 10 for Section II, and this is the production, for, say 1939, as it arose out of the situation at the end of 1938. But by withholding 5 out of 10 for enlargement of capital, we enter 1939 with 44 billions of constant capital to transfer, 11 billions with which to pay wages, and only 5 billions remain for capitalist consumption, as revenue.

The capitalists of II must sell to those of I, nonconsumable means of production (for them) of at least 16 billions in order to realize. But for the capitalists of I to buy the additional billion, they must augment their constant capital by that amount. They can take that billion only out of their surplus-value, which is the increment of new value they have.

If their organic composition remains the same the capitalists, when adding a billion to their constant capital in I, must add 500 millions also to their variable capital, to preserve the proportion. Hence their variable capital at the opening of the year 1939 rises to 8 billions. So that at the opening of 1939 we have a new formula, if extended reproduction occurs:

Section I, 16 billions constant, 8 billions variable, 6 billions surplus = 30.

Section II, 44 billions constant, 11 billions variable, 5 billions surplus = 60.

The same processes of transfer take place as in the previous amounts, from section to section, except for the differing quantities. But the new production takes place on the basis of a total constant and variable capital, for both sections, of 79 billions instead of 72.5

billions, owing to 5 billions being added in Section II and 1.5 billions in Section I.

Now, if the rate of surplus-value to variable capital remains identical for 1939 as for 1938, we enter 1940 with the following picture:

Section I, 16 billion constant, 8 billion variable, 8 billion surplus = 32.

Section II, 44 billion constant, 11 billion variable, 11 billion surplus = 66.

And this goes on in increasing amounts, ideally, from year to year.

Origin and Consequences of the Theory of Social Accumulation

Although it is true that the social process of accumulation is now made known to us completely, it is clear that for the millions of competing enterprises that make up capitalism, their internal fluctuations of fortune, expressed by the whirl of prices (nearly always away from value), make it extremely difficult to trace this total, unless one had a guiding theory of production from the very beginning.

The apparently innocent beginnings of the theory of Marxian value—the distinction between use-value and exchange-value; the separation accordingly of concrete labor that produces use-value and abstract that produces value itself, manifested only in exchange; the realization of this exchange quality of value by the use-value of another commodity; the consequent lesson that use-value can transfer value, so that constant capital, or use-values are transferred, whereas new values are added by abstract labor; that concrete and abstract labors are united in the same process so that the eye does not distinguish their contributions; that one is physical and the other social—all this filiation of ideas that so many superficial critics say Marxism could do without, comes to fruition in the schemes of total reproduction, which show how this system of definitions is confirmed by the final test, the *motion* of capitalism as a whole: its reproduction on a historically enlarging basis. And this motion was what the theory of value was originated to explore. Without the two

characters of labor, the theory of reproduction becomes impossible and the theory of a surplus merely static.

Apparent Equilibrium Is Only an Illustration

It would seem that by these formulas Marx shows a harmonious equilibrium between the two sections of production. But that is to misread his purpose. He illustrates the mechanisms by which the transfers take place; for this he assumes an ideal model, exactly as for the theory of value he assumed that objects exchanged at their value, and, to isolate surplus-value, at exact equivalence. But since the ideal conditions of harmonious reproduction would require a constant and definite proportion of value and of use-value throughout the social production, and the complete realization of both value and concrete use by both sections, there is no correspondence between a formula based on what would happen were these conditions fulfilled, and what does happen in fact, except that it enables us to trace the *objects* of such transfers among their distortions, and to explain the satisfaction of these objects *when, as, and if* they are attained.

But the "anarchy of production," in Engels's phrase, means that these harmonious transfers are no more realized than is the law of value in perfectly congruent prices.[2]

The theoretical consequences of Marx's theory of total reproduction are quite important. If the two qualities of labor are taken into consideration, then the crude theory of underconsumption is eliminated, for it is based on the assumption that the products of labor are all consumed.

Once exploitation, leading to surplus-value by way of the two characters of labor, is shown to connote reproduction of capital, the idea of a permanent sales crisis as haunting capitalism is shown to be baseless. The crises must be sought in the interruptions of transfers between the two sections, and these interruptions in the class relations within the productive apparatus. The theory of possible reproduction explains why crises take place only at intervals instead of con-

[2] Segal states (*Principes d'Économie Politique*, p. 232) that Otto Bauer and Tugan-Baranowski held that these schemes showed capitalist harmony as possible.

tinuously. Hence, while underconsumptionism is often confused with Marxism, it lacks its theoretical system, and so is the reverse of the Marxian theory of total social accumulation.

The theory of accumulation leads straight into that of crises. But while the Marxian structure is solid, and all theories must dance in its salons, it is true that for those who seek to identify Marxist science (not to "improve" or "revise" it), the theory of accumulation offers the richest possibilities for extension and further integration.

30

The Theory of Crises

We have completed the analysis of capitalist production, accumulation, and the divisions of surplus-value. From now on it is not the anatomy of capitalism that interests Marxist theory, it is its pathology. Not that Marx views crises as accidents or diseases under capitalism. For him they are a normal part of its functioning, a necessary mode of redistributing capital and realigning class relations. They are not disasters which can be avoided under that system. To use a vulgar analogy, they are no more a blemish on the capitalist system than excretion is on the divine beauty of Man. There would be no divine beauty if he did not excrete.

But it is a disaster, not from the viewpoint of capitalism but of its victims, that is, as a human catalogue of misfortunes. For this reason, and not in its own terms, it can be considered as an excrescence.

Frequency and Long Duration of Crises

Crises are recurrent and violent. The principal world crises have been the postwar depressions of 1816, then the first true capitalist smash, that of 1825, then in 1837. The British railway panic spread everywhere in 1846, the world crash of 1857 began in the United States of America. A financial panic began with the failure of the largest bill-discounting house in the world, Overend, Gurney & Co. of London, in 1866. A six-years' panic began in 1873 in Philadelphia and Vienna. The stagnation of 1885, the Baring Brothers crash from overextension in the Argentine that affected one country after another from 1890 to 1897, the minor panics of 1900, the American financial crash of 1907 that stagnated Europe till 1912, the terrible deflation crack of war-inflation prices in 1921, and finally the crowning event of 1929 (the worst of all, however measured). From the last there has been no complete capitalist recovery in the old sense,

only a farrago of inflation, armament, and other dodges superimposed on a smaller natural comeback.

This long history of disaster has nothing to do with the progress of industry. While these panics went on their gruesome way, taking up half the time of mankind, and more recently most of it, the wealth of the world has gained at a rate never before paralleled or even suggested. What is the nature of these eruptions that leave the volcano higher and higher?

The theory of crises has ranked next after the speculations on currency and credit as the happy hunting grounds of economists and crackpots. The schools devoted to "Konjunktur" studies, as the Germans call industrial cycles, have led to the formation of institutes for their study, and these have piled up a mass of statistics that would frighten the boldest. America, under Wesley C. Mitchell, has led in the detailed study of their behavior, and in the climatological theories, such as that of H. L. Moore.[3] Overproduction has its disciples, so has underconsumption, and the credit schools are populous.[4] The Marxian position here is the most celebrated, despite this wealth of competitors, and it is the essence of the prophetic economic theory of Marx. It is his rationalized scheme of the Apocalypse, like the Book of Ezekiel in the Old Testament.

The Progress of a Crisis

How does a crisis act? Commerce is reduced to small proportions. Markets are glutted. Products are stocked up for they are unsalable. Everyone wants hard cash and there is none about, it is secreted. Credit becomes extinct and those who have extended too much are in trouble. The fictitious values of goods and shares of stock tumble into any abyss. Everyone is "poorer."

Factories close down; the people are in want because there is too much around. The coal miner freezes because there is coal, the clothing worker shivers because the shops are full of suits. No one has the means of subsistence because he has produced too much. Finally there are bankruptcies and the hard-cash men buy up the effects of these poor devils for a song.

[3] H. L. Moore; see Bibliography.

[4] See appendices.

It takes years to recover. Productive forces go to waste and finally, after a long period, there is a faint and gradual revival of business, and then everyone sees the possibilities of money again and they speculate and go wild and it all happens again when the bubble bursts. This circus bas been going on for one hundred and twenty years.

Every Crisis Is the Last

Every crash is the last, according to the philosophers in fashion during the succeeding boom. After 1857, everyone said that the disturbances due to sudden gold discoveries could never recur. After 1873 it was said that the railroad developments of the American West that brought on the crisis were over with, that American industry was mature.

When Baring's crashed in 1890, it was said that the development of the Argentine represented the end of the growing pains of capitalism, the economy of the world was developed and in reasonable balance thereafter.

The panic of 1907 in America led to bank failures and a shortage of credit instruments. The Federal Reserve Bank was founded. Now all was well.

In 1921 the commodity structure of the earth came tumbling. Then from 1924 to 1929 America made a startling recovery and the values of its meanest huts were expressed as patined gold and all paper became precious. The theoreticians of the prosperity buried Karl Marx, that exploded thinker, and pointed out that Ford's rationalization of industry had produced a permanent prosperity.

The systematized inanities of Herbert Hoover gave countenance to this recurrent illusion. The crash of 1929 finished all that.

And now, especially in England, that a series of tricks based on exhausting her historic reserves to sustain a hysterical front, has given five years of respite, the theorists in London, like mushrooms after rain, have come up to show that these manipulations are purposeful and can avoid any future disaster. They are wrong. The next panic will rival all previous ones and may even be more serious. They got deeper and deeper and the recoveries shorter-lived and less convincing.

To the honor of Marxist thought, whatever may be our opinion of its theory of crises (the attacks on it will be given in the Critical Section), it has never fallen a victim to such illusions. The prophecies of the shape and scope of crises in Marx and Engels have been fulfilled in uncanny style. Its opponents may assail their deductions of inevitable and ultimate disaster, but on the intervening phenomena Marx can stand vindicated. But this does not mean that the mechanisms he assigns are correct. That is the central theoretical issue.

How Crises Appear to Originate

Crises manifest themselves first, or rather are seen most vividly, in the sphere of money, credit, and stock speculation, and for that reason it is in the sphere of circulation and not in the inherent position of the process of production that the cause of crises is often sought. The Marxian analysis makes credit contraction or expansion a mere symptom, and the periodic changes of the industrial cycle a cause. Circulation, exchange, distribution, credit, reflect the movement of capitalist production.

Prices are the instrument by which a manufacturer knows that there is a slackened demand for his goods. Stock Exchanges are sensitive instruments, as are bankers, for ascertaining the onward movement of prices. Their discovery of something wrong in the industrial cycle is manifested in their hesitations, in their selling. Since the production crisis first appears because of their acting on their recognition of it, crises have been supposed to originate because of their behavior due to that recognition. If this were not so, the actions of capitalists would appear either as capricious or (and this is a favorite theory) as merely a mass psychosis to realize paper values, which defeats its own object, since all values are "subjective."

Minor Crises May Be Derived from Secondary Causes

Not that there are not genuine money crises. But these are partial crises, due to overlending and overspeculation; if the industrial situation is sound they are soon rectified, leaving but little trouble in their wake. There are local crises such as land speculation

smashes, as in Florida in 1926, and still this was followed by a three-years' general boom. What we are dealing with is general, enduring, industrial crises.

Crises Caused by Relative Overproduction

Prices fall when there is a relative excess of commodities produced, that is, relative to the purchasing power of the population. Since labor receives the means of subsistence to maintain itself at a given level, any amount of surplus production could, at a certain time, surpass the possibilities of purchase. The factors of growth, such as new capital, foreign markets, etc., defer this contradiction for long periods, but it must eventuate at some time, because production is based on the antagonisms of classes, and the poor are expected to buy but not to receive proper wages with which to buy.

Crises under capitalism are brought about by *relative* overproduction. That is not an overproduction theory. It is an overproduction determined by the production of commodities not for wants but for profits and in a class relation based on exploitation.

The proof that it is a relative overproduction, not a physical one, is that customers everywhere languish for the want of goods that are present in abundance, in fact in more abundance than ever. Yet society acts as though there were a famine and their supplies cut off by a siege. For the Marxist this means that the conditions of capitalist production are too narrow to contain its productive possibilities.

On the contrary, in order to remedy the crisis, the productive relations themselves are diminished. Factories close down, machinery rusts, whole businesses are dissolved, superseded, scrapped. Why is this productive power lessened? Because it produces!

Capital can no longer turn its means of production into new capital. The industrial reserve army is demobilized and does nothing. Abundance prevents the transformation of means of production and subsistence into the only purpose of production, to increase accumulation. There has been too much accumulation; no one can use more. Labor-power is no longer "worth" purchasing. Where there is no transformation into capital the worker is deprived of producing for his own subsistence. The motivation of capital is not

to provide his subsistence but its own self-expansion. To achieve that self-expansion it must convert its former products into money. No sales no money, no money no purchase of means of production, nor of labor-power. The crisis is on.

Once productive forces have been diminished and new markets conquered, as in colonies or backward countries or areas, and old ones are more thoroughly exploited, prosperity is restored, that is, by restoring all the conditions that led to the first crisis, but on a different and usually a more destructive basis.

Criticisms of Relative Overproduction

The Marxian thesis has been subject to a running fire. Sombart, the most encyclopedic and literary of German economists, thought that crises have never been so severe as that of 1857. But he wrote before the World War, and his last editions were before 1929.

Marx's theories arise out of the analysis of a competitive society. Many economists have held that today the world is trustified, and that monopolies and cartels can prevent competitive breakdowns. This is another form of the theory of "organized capitalism" that gained currency before 1929. It does not appear to be so easily sustained a hypothesis at the moment. We are not here reviewing the innumerable crisis theories but the special points made against Marx.

The principal critique of Marxian theory is that it ignores the constituent element in production. That is to say, Marx speaks of a crisis in commodities as a general thing, and then measures this breakdown against the class contradictions in production, as an inherent development that can never be circumvented. But how can there be such a thing as general production? Too many shoes may be produced and too many drawing crayons and too many crops of broccoli, but what are *commodities?* A summary of an almost unlimited variety of goods.

Thus a crisis may arise by a want of proportion between various industries. Were these proportions planned by a national planning council, even under capitalism, there would never be disturbances in proportionate consumptions of goods and so there would be no originating price breakdowns which bring about weakness and cause general disturbances. The two most conspicuous socialist critics of

Marx, the Austrian Hilferding, and the Russian Tugan-Baranowski, have maintained this type of socialist reply. For, be it noted, these critics assume the truth of the Marxian theory of surplus-value, unlike the academic opponents of Marx.

Analysis of Trades-Disproportion Theory

Let us separate goods first into their basic market appearance. They are means of production and means of consumption. But the object of means of production is to furnish means of consumption, to sell goods at a profit to consumers. Buildings are built to house workers, who in turn work in factories or shops or stores or on railroads. Every machine is produced to make some object, like chewing gum, and the persons engaged in this work buy means of subsistence.

But if a certain number of means of consumption do not find a market then the planners would switch to manufacturing ladies' hats instead of stockings and shift the workers from stockings to hats with loss to the stocking manufacturers. Well, that is just what a crisis does anyway. Its job is to wreck the over-extended lines and by trial and error, with much rumbling, discover the profitable lines.

But the planners hope to do this without loss. Well, then, they must compensate every producer who goes wrong, so as to limit disturbances and yet make for proportionality. So, if the consumption industries, to the extent of twenty of them, are overextended, these capitalists, so as not to disturb the equilibrium, must be financed into other enterprises. The principal business of the world would soon be to enter into business in order to be compensated. And who would pay for this compensation? The solvent industries? The successful businessmen to be forever mulcted for the sake of the idiots? Stupidity to be garnished with premiums and intelligence bludgeoned with penalties?

And if this is done, what right have businessmen to a profit? No risks, why rewards?

That this nonsense imposed on socialists shows how deep is the natural desire of men not to espouse violent remedies but to seek moderate ones, even at the cost of ordered thought. Actually the

important diminution of demands in the sphere of consumption must reduce the purchase of means of production and bring about a panic. There is no way out, save for short intervals, and these only postpone the crash and make it that much worse.

There are far more profound replies to trades disproportionality, but these suffice. It is not from dissenting socialists that Marx will meet his answer.

Underconsumptionist Theory

Another critique has been that of the underconsumptionists. Engels's celebrated reply is that mankind has underconsumed from the days of the Pharaohs and yet world panics began only in 1825. They are capitalist phenomena, not human misfortunes.

As a matter of fact the consumption of goods is at its height right before a crisis breaks out. More than that, employment and wages are at their best levels at the height of a boom, right before the panic begins. High wages do not stop crises; employment does not stop them; larger consumption cannot prevent them.

For Marx all consumption theories are nonsense. The production process, by its antagonisms, alone provides the mechanism of crises. Changes in consumption are a consequence of these production disturbances, but not a cause, except as a secondary cause, a consequence that reacts on its original cause.

The Positive Theory of Crises

We have not yet dealt, except by implication, with three principal points:

(*a*) Why do crises break out only at certain intervals?

(*b*) Why do they break out only under capitalism and not merely in earlier forms of commodity production?

(*c*) Why are they compatible with the continued growth of capitalism; what services do they perform for capitalism?

To begin with, the system of commodity production does contain the possibilities of a crisis, but only that. Since a seller need not purchase but can interrupt circulation by not re-entering the

market, there is already implicit the possibility of a stoppage of trade. But that was true in 1700, and still there were no crises. Every purchase and sale creates all sorts of dependent relations; one sale determines a host of future sales and purchases.

But now let us see what happens when the seller has to wait for his money. Each seller is dependent on his buyer's making good at a future time. He engages himself to buy goods on the assumption that he will be so paid. If that does not happen, a row of orders come tumbling down like a file of wooden soldiers. And as each cannot realize his bills, since he depended on the others, you have a crisis. It is not as simple as all that. A few canceled sales would not do this, but enough cancellations to injure the possibilities of numerous sellers would. So that the interruption of the primary commodity situation, purchase and sale cycles, is the *condition* without which crisis would never occur, but the credit machinery is the mode by which this possibility is carried out. But even this is a mere beginning.

Capitalism adds some new complexities. Labor-power becomes a commodity and it, like any other commodity, has to be bought and paid for. Production is split up into numerous industries, some large, some small. For all that the machinery of commodity economy, of the hiring of labor, of capitalists supplying each other, of their depositing together, and selling on credit on the bases of their mutual business, makes each of these scattered private units dependent on each other to a marked degree.

Unless wool is obtained from Wyoming, the Massachusetts woolen industry cannot go on. If the machinery company does not supply it, it cannot expand. The machinery company must receive its metal from the steel companies, and so on. Hence the mere possibility of a crisis is dangerously near to reality.

For all the producers are really partial producers of total social products. There are no producers of totalities, in the way in which even a medieval small town was self-contained (together with its surrounding countryside). This partial production is assisted by mutual dependence on credit, and on the need for money with which to acquire expanded capital, and so the possibilities of crisis are enlarged.

Productive Forces vs. Private Appropriation

For Marx the crisis begins in the collision or conflict between productive forces (for creating use-values) and production relations which are specific to capitalism. That is, goods are produced socially, appropriated privately. In early commodity production there was not the web of mutual interdependence, on a world scale.

Social labor becomes more socialized, the number of important capitalists tends to diminish, but production is all in one social stream. But each capitalist decides for himself what part he is to play in this involuntary social production.

And, since no capital can stop expanding, it follows that one has an endless chain of developments but each of these unlimited processes must jibe with other unlimited processes of other capitalists. There must be room for all, but none knows which room is wanted.

When capital is transformed into money, then that circulation can know no limits. Soon production—with every competitor driven to do his utmost to increase his profits, or even to hold his ground—expands without reference to consumer limits, until it is violently checked by finding that it has produced without being able to dispose of production.

Indispensable Prerequisites of Crises

Every capitalist determines his production by his reinvestment or accumulation and strives to increase that production by that sign. As long as he can sell he will never stop, and that goes for every competitor. Therefore, for real possibilities of crises one must have a *self-expanding* capitalist system, based on *large purchases of labor-power* and *using a complex credit and selling system,* and in *mutual interdependence due to specialization* of each, and this *interdependence must embrace a wide area.* These are the specific conditions required.

But this does not provide the fuse, only the bomb. The chase after profits requires more efficient techniques, that is, more refined and successful methods for getting the most out of labor-power. To increase capital one must increase profits, and for that one must augment productivity, so that, as Engels says, finally production is

carried on with a frenzy that indicates that two billion new customers were just discovered in the moon.

Relative Growth of Capital to Labor-Power Purchased

But these productive forces of capital, that grow extensively and intensively, lead to a relative decline in the demand for labor-power. To the extent that each worker grows more productive, he assists in superseding the activities of his class. The increasing size of capital is accompanied by a relatively (not absolute, of necessity) smaller number of workers.

The struggle to reduce wages continues, despite the fact that wages are really much lower in terms of productivity. But even where, as in moments of boom, wages increase, that increase lags relatively more and more behind productivity.

That is why the underconsumption theories, by themselves, are meaningless. It is the contradiction of capitalism, the relative growth of capital as more than that of labor-power and of its pay, that creates the dangerous discrepancy. Hence the productive powers of capitalism are hampered by the widening space between capital growth and the lag of labor. How can the productive forces go on when this gap widens?

They cannot. That accounts for the crisis breaking out only at definite periods, that is, when all these conditions are fulfilled.

We now know why it requires a high capitalism and also why capitalism requires intervals in which to develop the discrepancies out of its own inner needs for expansion. It is because these discrepancies are the very means of its increasing capital, and that capital expansion comes to a dead stop when the volume of goods (which are to be sold to continue that expansion) cannot be disposed of. Its own meat is its own poison. It lives on the contradiction of labor, but it sickens from it.

Credit and Speculation Assist Relative Overproduction

There are subsidiary factors, too. Money is cheap during a boom. Everyone wants to lend to firms that can show increasing profits and reserves. Brokers' offices are crowded with dopesters reading statisti-

cal cards on companies that have a curve ascending to the throne of Jupiter.

The banks lend freely, they lend all they have, and very often they are driven by their enthusiasm to grant book credits beyond their real resources. Everything is marked up in terms of everything else. They own securities and these go up as profits go up, and so they have the right to lend more on these shares, and then the share-owner uses the increased loans to buy more, and then the bank advances him still more, etc. But socially something more profound has happened.

Bank credit to a great extent ends the function of private capital. It is not the capital of Smith, Jones, and Robinson that is autonomous, it is the pooled capital of Smith, Jones, Robinson, Anderson, Wilson, MacDonald, Cohen, that is used to finance Smith, Jones, and Robinson.

Thus the contradictions of capitalism become deeper. When the selling of commodities is interrupted it is not their own capital, nor that of houses with which they do business, that is involved, but everybody's money. Every development of capitalism is speeded up by this bank development, for it takes so much less time to accumulate and expand. It also takes less time to come to grief and a greater depth of misfortune when the evil day comes. The banker's blessing is turned into a curse.

Thus the need for expansion, for relative surplus-value, for more expansion, on that still more extended basis, aided by bank loans and speculative investments, *all go one way*. The racing-car is doing a hundred miles an hour without brakes, every cylinder pouring out its full force. That is what Marx means by saying that the mode of production does not go sequentially any more but by leaps and bounds and only a shortage of raw materials and (and this is the rub) the disposal of its produce, can stop it.

Raw Materials Shortage Not the Explanation

On the score of raw materials, capitalism has as yet had no serious shortage. When madder ran low, coal-tar derivatives replaced it; when the production of silk became inadequate, rayon took over its lower uses; when gold ran low, as about 1890, the Rand and

the Klondike saved the day; and the gloomy prophecies of Sir William Crookes that the population of the earth would be limited by the want of wheat, solemnly proclaimed in 1895, were made ridiculous by the sudden development of the Manitoba field.

In fact, raw materials seem to have come almost providentially. When the development of the automobile necessitated a great upsurge in rubber and neither the Congo nor Brazil sufficed, the Malay States and Sumatra saved the situation.

When petroleum, or rather gasoline, became too dear for the Ford user, the new cracking process of 1922 in effect doubled the available supply. The greater use and conversion of waste products has enabled a great many "outs" to occur, and the development of synthetic products, though on the average much too costly, has enabled countries short of foreign money to navigate difficult moments.

The new and lighter metals such as aluminum have changed the face of the world. The development too, of derivative industries, like the immense cinema expansion, has helped to take up the great numbers of persons displaced in the machine trades, and has created markets in the remotest jungles for civilized actors. If anything, the supplies of commodities like coffee and sugar have been far too copious for the narrow bounds of effective demand.

But so soon as the raw materials question is solved, so soon as the lands that produce them become reciprocally customers for manufactured goods and provide new markets, the same old expansion takes place with the same disastrous consequence. Each crisis ends with a better technical equipment inherited from the previous boom, with a greater productive capacity. Every crisis enables capital to rebuild on a basis whereby the rate of expansion of new capital must forever grow further apart from the labor consumption growth, even though that too is larger than ever.

Why Crises Are Worse and Yet Production Advances

To put it arithmetically: In crisis A, capital is 100, labor-power 80, discrepancy 20, then there is a great capital expansion to 200, but labor is 140, then a crash. Capital shrinks to 150, labor to only 110. There is a realignment but the new expansion begins at 150 for

capital and not at 80. The new capital grows from 150 to 300 but labor only from 110 to 190. Capital must resolve violently the need of each capitalist to grow to the skies in a system where all must co-operate in a kind of balance and yet where the only means of each growing to the skies is to exploit labor more intensively (and usually more of it absolutely), and so increase both the size of his operations and labor, yet at the cost of a widening gap between the two. That limits consumption and so there is a panic. After that panic, the rich and powerful capitalists who have the most liquid resources remain, but not the defunct opponents. *The next boom always starts with more centralized capital.*

So that after ten alternations of boom and crisis, we stand as follows: Capital has risen from 100 to 1,000, labor from 80 to 600, the discrepancy has increased from 20 per cent to 40 per cent, yet there is a far greater amount of wealth and employment. Every gap as it increases causes wilder efforts to escape by passionate searches for new markets, however obtained. Every crash increases the number of capitalist victims relatively, and reduces the number of survivors, relatively also to total production.

By this shuttling process capitalism attains both its growth and its concentration, so that crises are the historic expression of its need to reconcile unlimited capital expansion with the eternal limits of relative consumption. But as each crisis, beginning with a higher proportion of constant capital, must seek to obtain a higher wealth by still further intensifying relative surplus-value devices, the truth holds that crises are both normal and disastrous for the system.

That is how the underlying contradiction of capitalism manifests itself. But it does not describe fully the underlying weaknesses in the productive apparatus itself, only the totality of its manifestations as against the limit of relative consumption.

The True Theory of Disproportionate Branches

Although capitalism must produce both means of production and consumption, and both are necessary to each other, they are separated industrially. Steel manufacturers and candymakers are rarely, if ever, united. Here the theory of a disproportion has validity. Now the means of production serve only to create constant capital. These

in turn are useful in order to manufacture, ultimately, articles of consumption.[5] Machines are consumed slowly in production; they cannot be used in exchange against articles of consumption which are exchanged only against income, not capital. The articles of consumption are used by the buyer: they never serve as capital when utilized, for they are consumed. ***Variable capital is replaced through consumption, constant capital through production.***

Now this want of proportionality is not the same as in the superficial idea that one branch of industry grows faster than another. The proportion of consumption to production is a necessity since one is the means to the other and development is disastrously impeded if it (production means) cannot find its use in serving consumption goods manufacture.

The unequal development of these two mutually necessary branches is a necessity, though, of the capitalist expansion. (Could they be balanced, as they were about 1800, there would be no crises.)

Since machines are developed to economize labor, and this is the lever of capitalist expansion, it follows that investment in the means of production, of constant capital, must outstrip that of variable capital, the means of subsistence (so that the mass of profits is found there, too).

This contradiction is given in capitalism. It must achieve this, for otherwise no competitor could outdistance another manufacturer or preserve his business through not being outdistanced. Since capital flows more than ever into means of production—that is, into steel, machinery, etc., and relatively less into means of consumption —a time must come when the constant capital reaches the limit of its use, and as capital cannot stop expanding, the recoil produces the panic. The constant capital cannot be employed to make goods without the customers to take them. This is the mechanism by which crises arise.

More than that, constant capital industries themselves usually have more constant capital than others. The steel business is proverbially either a feast or a famine. Thus in upsurges, steel profits rise proportionately higher and in crises sink proportionately

[5] The previous scholastic chapter completely integrates the relation of means of production and means of consumption industries.

more than in the consumption industries. The greater instability of these industries produces a constant threat to the proportionality of means of production and consumption. The decline in grocery sales during the panic of 1929-33 was far less than the steep decline in iron and steel production. But the upsurge was less too. Here one has two interdependent branches, each required by the other, the constant dependent on the variable ultimately, and having wholly different rates of movement, by their nature under capitalism. The deduction is obvious.

NOTE: Crises can be classified as brougbt about by permanent and special causes. The permanent ones are characteristic of developed capitalism, the special ones are the new factors, resulting from that previous development and which, in the next crisis, have become characteristic features, if they are retained.

The permanent features are accumulation of capital, high organic composition, increase of unemployment, increased exploitation, tendential fall in the rate of profit, centralization and monopoly growth, contradiction between production and consumption, expressed as disproportion of their industries, and of the barriers in the markets to the realization of produced values, due to declining relative wages. The crisis moves from the barrier to the producers' goods industries and soon the consumption is adversely affected by recoil.

But every crisis must be explained by its own position in the development of capitalism, as the above scheme is not progressive enough and is much too universal. In 1873, for example, the breakup of the middle-class producer was slight, in 1929 dramatic. Panics in 1873 were related to overinvestment of production goods in colonial countries; the panic of 1929 to the chronic surplus of production capital in each of the domestic countries; especially the United States and Germany. The panic of 1846 came from too rapid a development of producers' goods at home, etc. Economically the developments that ruined Europe in 1846 proved wise, but they were too quickly done, etc. In the theory of the General Crisis (in the ensuing theory of Lenin) an important synthesis of the permanent factors, changing their respective weigbts and characters by interplay with their secondary factors, is the capstone of the Marxian Crisis Theory, especially in its bold concept of the

General Crisis of Capitalism, an attempt to give the *timbre* of the "knell of the expropriators."

In using the concept the "cause" of the crisis, we may either use the mechanisms, as they actually function because of the particular traits of present-day capitalism, or we may ask for the recurrent situations created by the capitalist need to increase capital, without reference to any social considerations. If the latter definition is used, then of course the Marxian "cause" of crises is not the disproportion between production and consumption sectors of total production, nor even the contradiction between production and consumption in any given cycle of production, but rather the contradiction between social production and private appropriation. But the best use of the term would be to say that this is the reason why crises occur: the causes are in the operation of the system, and must be given in terms of actual maladjustments.

The mechanisms of crises are given only sketchily in this study. They are worthy of large textbooks for themselves. It is a nice question how many branches of production must be stricken by a want of demand to generate a true crisis; whether it is their size or their strategic position that is the more weighty. It would be interesting to inquire why some great stock-exchange crises leave production almost unaffected and others are required to act as the alarm clocks that wake the crocodile, crisis, from his ten-year dream of prosperity. Within the framework of Marxian theory there are many possibilities for more delicate treatment, such as was shown by Lenin when he developed his theory of the general crisis as having a different economic quality than previous crises, not referable merely to greater magnitude.

The Marxian theory of crisis is closely woven and is related to the modes of growth of capitalism. It is a great deal like pediatries, which traces the growth of a child through infantile disease. But the child does not need the disease; the system, the Marxists aver, does.

Note: Consult Appendix IV for special bibliography.

Note: *Recovery from Crises*

We know that nearly nine-tenths of the profit structure of capitalism is bound up with means of production, and that

the manufacture of these do employ the greatest number of industrial workers. Since their decline in production is the more precipitate during a crisis, the subsequent recovery must center on how this section of production re-establishes profitability.

A crisis breaks out, roughly, in proportion as the situation is remote from the causes of the crisis. Either securities or credit first crashes. The decline in inventory values appears to generate the crisis. But the overproduction of producers' goods for the consumption industries that cannot utilize more constant capital, because it cannot lead to realizable new value is, of course, the basic cause. How does the need for constant capital rearise; how do the consumption sections feel they can utilize profitably additional constant capital?

In the first place, the crash of prices means that constant capital is cheapened absolutely. If the fall in the price of constant capital is more profound than in consumption goods (and that it is practically always the case, though under monopoly capital it is distorted, as we shall see later), then relatively, too, constant capital becomes less costly. The rate of profit on the lower value of constant capital, might be greater, even were the rate of surplus-value not varied. But the reduction of the means of subsistence, in price, means a possibility of reducing the expenditure on variable capital by lowering wages, even assuming a fair re-employment. There are further factors, such as the actual destruction of redundant capital, thus reducing the actual amount of capital competing for the total social production.

Lower prices, lower constant capital value, lower wages, reduced production, actual destruction of use-values, numerous bankruptcies, (thus reducing the barriers to centralization) increase of monopoly—nearly all these are characteristic of the end of a period of cyclical (not general) crisis. The rate of profit is the ratio of surplus-value to total capital both constant and variable. If that total capital is reduced from 100 to 50, and a rate of profit of 4 per cent becomes possible, instead of the permanent write-downs and deficits of years of crisis, the wheels will turn again, even though the boom profits, when last seen before they exploded, were at the rate of, say 30 per cent. But no sooner is the process started again than the requirement for reproduction forces a

similar, though at first slow, enlargement of constant capital. (During the present recovery from 1933 onward this has been less in evidence, however, than previously. And that proves its different quality.)

But since the new recovery comes from a widespread destruction of individual capitalists, and with a higher organic composition than when the last recovery began, the contradictions are deeper, the possibilities of recovery less brilliant, the length of recoveries shorter, the depth of the consequent crisis increased, even though the peak point is lower, relatively considered, as against the capital employed.

The recovery from crises has been outlined here, as though the entire capitalist system were in a closed circuit obeying only its own laws. But until very recently, of course, the ability to obtain profits from primitive accumulation, or rather from conversion of noncapitalist sections of the world, or even internally, into capitalist reserves, played a part in recovery.

This is not to be identified with the theory that the recoveries within capitalism have been assisted in time and scope by this important contribution. That was the secret of Britain's easy recoveries from her deep crises in the early nineteenth century. But this factor is becoming relatively less important, and the temporary alleviation given by the enormous capital investments of 1890-1914 are nearly over. Hence we see crises much more determined in their behavior by the reproduction of capitalism within itself and, of course, the contradictions are thereby shown as much deeper, the crises more difficult to recover from.

The Marxists always held that the General Crisis would arise when the outside "feeders" of capitalism diminished, for that would lead to monopoly within the system. But there is a difference between saying that relationship to noncapitalist areas prevented *general crisis* and allowed only of cyclical crises, and saying that capitalism *functions* only by reason of realization outside the system. (See the refutation of the Luxemburg hypothesis in the chapter on "The Accumulation Debate.")

INTERLUDE

Marxian Economic Theory Since the Death of Engels

With the death of Frederick Engels in 1895, Marxian economic theory enters into a different phase. We are not concerned here with the political and social sources of these theories, but a passing notice must be given so that certain diverging tendencies in economic theory can be fully apprehended.

Marx and Engels, as we shall see, faced many dissenting schools of socialist thought and found their teachings wholly rejected by non-socialist economists. But by the time of Engels's death his authority was papal; Marxism had become the officially accepted doctrine of all the socialist parties and factions, even of those which did not dot every *i* and cross every *t*.

Those who rejected his ideas were the British Fabians, the anarchists, and, beginning with the treatise of Bernstein, one of the leaders of the German party in 1899, the Revisionists.

But as we are treating of Marxian theory and not of non-Marxian theory, we must take up here those who accepted the Marxist basis unquestioningly. These leaders were Kautsky (1854-1938) in Germany (but principally as an expositor) and Lenin (1870-1924) in Russia, as a developer of extended Marxist theory. The split between Marxians has grown wider.

But the doctrine of Lenin, formulated mostly in scattered periodical writings (especially after 1900), became accepted by a large section of socialists in 1903, and dominated the arena of action and discussion both, after Lenin's startling victory in Russia in 1917.[1]

His is the only integrated system of post-Marxist thought based entirely on the *corpus* of Marxian economic theory. The other disciples of Marx, such as the brilliant martyr Rosa Luxemburg

[1] Laski says Lenin's works are the most formidable textbooks of revolutionary practice ever known.

(1871-1919), sought rather to correct certain alleged shortcomings or, as in the case of Georges Sorel, really deviated altogether.

The purely orthodox critics like Kautsky added little to theory. New Marxian theoreticians in the direct line include, among many others, Hilferding, synthesizer and modernizer of the theory of finance capital, Cunow, of the economic theory of the state, Sternberg of an errant theory of imperialism, Grossmann of a divergent theory of accumulation and crisis, and the learned, clever but overformal Bukharin, whose economic analyses are eclectic and fluctuating. There are a host of others; in fact, they are more numerous than one could imagine, considering the fact that Marxist doctrine, unlike the academic, is not stipended and does not give rise to professional expositors and students.

But few of these thinkers really added anything to Marxian economic theory, unless that term be made all-inclusive. Such a celebrated storm-center as Trotsky (1879-) is the author of scattered theories of imperialism, etc., but his economic theoretical doctrine is tenuous and limited. This has nothing to do with the scope of his politico-economic doctrine, though the comparative thinness of his economic analysis weakens its presuppositions.

It is best therefore to take up Lenin, first because he became the leader of the historically most active socialist element, certainly the most successful, and because all branches of Communists and *Left* Socialists nominally invoke his authority at the very least.[2]

Lenin was born in 1870 and entered the Russian socialist movement as a student. Marxist doctrine was widespread in Russia and, as German was the language of the learned classes (as French of the gentry), the most recondite Marxian studies were known to a large circle of students. Such commentators as Plekhanov (1856-1918) became the leading philosophical critics of Marxian theory.

In this setting Lenin, like his great prototype Marx, mingled theoretical learning with revolutionary activity, laying down the formula that no revolutionary action could exist unless guided by strict theory.

[2] But not the eclectic and conservative. At Glasgow, I heard William Gillies, international secretary of the British Labor Party, deny his greatness and even question his ability! [*Author.*]

Like Marx, born in, or linked with, the lower nobility, be was academically educated. Steeped in German philosophy, but without the worship of the body of learning as a stuffed museum specimen, he lived in exile or in prison, but never ceased study. In Paris, for example, he worked under the famed *bourgeois* sociologist Durkheim. His doctrine, vivid with Marxian insight, really is nothing else than an extension of Marxist theory, as given, into the situation of capitalism in the twentieth century. His doctrines, based on finance-imperialism, imperialism itself, present-day capitalist concentration, the general crisis, the role of taxation and state debt, the financial superstructure and its new devices, the present position of labor, and above all, of industrial monopoly and agricultural capital, are the proper epilogue of Marx.[8]

[8] Practically all competent bourgeois critics, such as Pohle, Liefmann, Diehl, so regard him.

31

Finance Capital, Industrial Monopoly, and Imperialism

Lenin begins his study of modern tendencies and their economic meaning with a summary of capitalist concentration, and mostly of centralization leading to monopoly forms. By 1909, a quarter of a century after the death of the prophesying Marx, in the United States about 1 per cent of all enterprises hired 30 per cent of the workers and produced about 44 per cent of the total output. There were only 3,000 companies in this 1 per cent. The population of the United States was about 104 millions.

In Germany, not only was concentration approaching the American level but it was more effective, since the German large capitalists had formed "cartels" or trade groupings for fixing prices and limiting competition, in many of the decisive industries.

In the United States, this development took the form of "trusts," that is, of single corporations which, either in their own names or those of subsidiary companies, dominated single industries, such as the Standard Oil Company.

The capitals of these companies were something that had never been approached. Their budgets were far larger than those of minor governments. The number of their employees exceeded all but the three largest armies in the world.

Great areas of production were closed to serious competition. A new adaptation of Marxist theory was made by Lenin to suit Marx's own prophecy. Monopoly became a basis of economic life; it transformed capitalism into *imperialism*.

Lenin related this intense form of concentrated capital to the need for raw materials, to industry's union with banking (which now goes far beyond mere money lending and credit availability, although still retaining these), and, lastly, to the part colonial conquest had in furthering monopoly growth and the reciprocal

effect of monopoly structure on colonial policy. The latter feature was subsidiary in the United States, but primary in Britain, France, and Germany. Other capitalist states like Belgium and Holland were identical with Britain in policy and needs;[1] others mirrored these policies, but more dimly, such as Italy, Austria, and Russia. Some states that profited by this development without a struggle, such as Switzerland, were converted into a fusion of a café and a safe-deposit vault.

Since Lenin wrote, concentration has gone much further. American concerns that produced a million dollars in products or over per year accounted for 63 per cent of production by 1921. It is more than that today.

The Universality of Large Public Companies

These large companies, with rare exceptions, are public companies, that is, anyone is free to buy a share in them. Thus the United States Steel Corporation and General Motors, and above all the American Telephone and Telegraph Company have a small army of shareholders. These shares, or parts in the unpledged capital of the company they represent, are bought and sold daily on stock exchanges. In addition to this, these companies borrow sums of money, covenanting to return the principal at a given date and to pay a definite interest for a certain time, and they agree to certain losses and penalties if they default. This debt is divided into small parts, called bonds, and is open to all purchasers, and these bonds are daily traded in.

The shares, as a rule, have the unlimited right to a part of the profits of the company; the bonds, except for oddities, have no such right, since they enjoy preference as to interest payments. This is a very crude outline of the marvelous and variegated foliage of the securities jungle, but it is enough for Marxian theory. The trimmings and exceptions would affect no analysis.

Even in the best developed, ripest capitalism of the world, that of the British Isles, from their capitalization at the time of the death of Karl Marx in 1883, to 1930, the public capital of companies had

[1] The epigram of Disraeli, "England without India is Belgium afloat," was not so true after the latter absorbed the Congo.

risen from about $2\frac{1}{2}$ billion dollars to 28 billions. Population had risen merely from 37 to 47 millions.

The public corporation makes it easy to engage great capitals because nobody's individual capital is wholly involved, the risk is distributed. Also the stock company has a limited liability, so that even a gross error on its part can lead to a known loss, at the worst. Another aspect of the public company is that it is no longer limited by its own capital or the loans of banks on a short-term basis but can permanently call on the savings of millions of people.[2] Once the share capital is bought, the money is gone for good, socially speaking, for each shareholder can get it back only by getting somebody else's money. But that much money is in the capital. By facilitating business and limiting loss, the corporation is enabled to engage in enormous operations, to employ hundreds of thousands. It is a great aid in concentration: in fact, without the corporation form the inevitable expansion of capital would be hampered seriously. Even for an economic tendency, it is necessary to seek embodiment in a proper juridical form.

How Companies Are Governed

Since hundreds of thousands of shareholders cannot really control a company, these are governed by boards of directors, nominally re-elected democratically by the share capital (each share one vote) at general meetings. So valueless is this privilege that, in fact, shares with voting privileges usually do not sell for more than those without them. Actually the management sends out proxies, or delegated rights to vote, and unless some extremely wealthy group challenges this, it insures continuity of the group already installed in power. Besides, this authority is easily diluted. Suppose we have the following arrangement:

Company A has: \$50,000,000 in bonds (these do not vote);
\$25,000,000 in preferred stock (these do not vote);
\$15,000,000 in non-voting stock;
\$10,000,000 in voting stock.

[2] Since 1929, like Owen Glendower, it can call, but who will answer?

The corporation can be controlled with 51 per cent of the last item; that is, with $5,100,000, $100,000,000 is controlled. More than that, suppose that 51 per cent of the 51 per cent is owned by the Company A Holding Company, and 51 per cent of that is owned by the Company A Investors' Associates, then about $1,300,000 controls the $100,000,000. And if the two holding companies have a basis of capitalization like the Company A they control, then the whole of the $100,000,000 can be controlled by $13,000, in theory.

And, in some of the public utility holding companies in America, things nearly as exaggerated have taken place. Control, then, is not necessarily related to size of holding, but to type of distribution of controlling points. That was the mechanism—however refined, obscured, and varied—by which Mr. Morgan candidly stated to the Pujo Committee in 1913 that he was somehow in touch with capital more than a hundred times his own fortune.

With control go a varied series of corruptions, such as the purchase of supplies from subsidiary companies, owned entirely by the inside-control crowd, thus diminishing profits for shareholders by diverting them to the supply company; artificial depression of shares to get them cheap from discouraged stockholders; artificial stimulation of prices when they know things are doing badly but the shareholders do not as yet know this, etc. There is no need to add details: obviously control involves the possibilities of its abuse, and abuse, in economic language, is the transfer of money from outsiders to insiders.

Expropriation of Investors

Prior to 1929 the widespread ownership of stock was gazetted as a reply to those who stated that concentration was an injury to the middle class. It was alleged that the middle class had merely changed its vesture from independent capitalists to participants in aggregated capitals.[8] The deflationary experience of the panic has somewhat modified this insistence. It matters little to the shareholder who bought Steels at 200 and was forced to sell at 80, that some millionaire could repurchase them at 25, and that they are

[8] They changed their vesture but they lost their shirt.

again at 100. They are somebody else's 100, and that is what matters.

These abuses have existed since the early days of merchant capital. Relative to the total capital of the country, the panic of the 1640's in tulips in Holland, of the South Sea Bubble of 1721 in England, and of the crash of the Mississippi Company in France in 1729, were greater than any subsequent panic. But that is a superficial view. Now these abuses and crises lead to a different alignment of industrial capital with reference to labor; then they did not. The class content is wholly altered. Today every contradiction of constant and variable capital is promoted by financial panics. It is like comparing a broken wrist of a youth of twenty with that of a man of eighty.

The Transfer of Capitalist Management

What happens, though, is that the actual management of corporations is in the hands of employees, engineers, executives, usually high-salaried workers. The control of the company is increasingly exercised by men without a specific knowledge of the industry, not specially trained for it. Since bankers are powerful among such directors, and they usually know much more about chamber music and paintings than about crankshafts, the capitalist is rendering himself functionally superfluous. He knows an immense number of details about companies but only those which relate to their finances. He derives his physical knowledge of the company from its actual directing staff, who are usually not in control.

The State of Productive Forces, Competition, and Monopoly

Centralization of capital has so altered the economic body since Marx's day that his anticipatory analysis of the effects of relative surplus-value appears almost skeletal compared to the fat his creation has since taken on. In 1875 the industrial machinery, in horsepower, was 300,000 in Great Britain, then the most developed capitalism for its population. In 1928 it was 37,000,000, or a hundred times as great as when the second edition of *Capital* was issued. France is supposed to be agricultural and conservative, but its horsepower in machinery rose from 20,000 to 18,500,000. Germany rose

from 10,000 to 32,000,000, and the United States, the wonder of the world, from a mere 300,000 like England's, to 162,000,000! For the whole world it rose from 650,000 to 390,000,000, or more than five hundred times in fifty years!

Robert Owen wrote in 1829 that his workers produced with 2,500 employes as much as 600,000 in the age of handicrafts (and he asked what had become of the difference, since they were poor). What would have been his commentary a hundred years later? England, which had been the very center of Marx's analysis and had nearly 50 per cent of the world's machinery when he wrote, even after her immense growth had but 9½ per cent in 1928.

The competition of nations had replaced England's monopoly of manufacture for export. The age of peace and free trade gives way to the age of tariffs and war. It does not require a Marxian to ask, Why is anyone poor any more? Various as the answers are, Lenin has sought to integrate the Marxist one for this epoch.

Is Competition Superseded by Monopoly?

Since monopoly has made such great gains, what is the present operation of the laws of competition? Are they superseded? Is the Marxian theory of the need for capital expansion, so as to hold one's own in competition, now annulled or weakened? Is the price determination of goods in free competition any longer a herald of crises? Do monopolies by regulating large internal areas of industry diminish crisis possibilities?

Competition governs all the more fiercely among the hundreds of thousands of small enterprises for they have so much less to divide. If 1 per cent of the corporations do 60 per cent of the business, then the competition for less than half the trade among the 99 per cent intensified all the laws of competition within that area of business.

Between the large corporations where there is no decisive monopoly, competition is carried on within the industry with a ruthlessness not rivaled since the Dutch and English East India companies slit the throats of each other's agents. Wherever one industry is monopolized, as is aluminum, it conducts a vigorous price war against the metals it hopes to supersede.

New small capitals flow into new industries. Anyone who recalls

the carly days of radio and rayon, hardly a decade ago, knows what that mcans.[4]

The advertising war between brands of cigarettes and makes of automobiles is as vigorous as ever, although the contestants are fewer.

Where cartels, or closed trade agreements are formed, there is a jockeying for quotas within the agreement and economic force ultimately decides. Besides which, all trade agreements are "knifed" if the profits look more certain than the penalties. Carpet-sweepers still fight vacuum cleaners, although the companies that own the latter are colossi. So there is still intact every economic feature of competition.

Distortion of Competition in Monopoly Capitalism

The monopoly feature, though, does change some vital forms of competition. The monopolies raise prices so as to make their profit rise above the average. When the competing manufacturers, who have smaller capitals, have to come to any monopoly for their supplies, they pay a righer price than would obtain under competition, and so their costs are raised, but not their receipts, for those have to be based on competition. The smaller companies, thus, *permanently,* have a lower than average profit, the monopolies *permanently* a higher than average rate. Capital cannot move freely, as before, from $100,000 enterprises to $100,000,000 monopolies. The free flow of equalizing new capitals that once opened up the investment level is clogged. But big free capital tries to break into the profitable monopoly field where it too hopes to dictate to the smaller companies. The resulting titanic struggles among the large companies for control of an industry furnish fiction and motion-picture writers with plots on the "Octopus." Economically they mean that competition is transferred to a struggle for an assured higher-than-average profit by the plutocrats, and for the lower-than-average residuum of profit by the smaller companies.

Since monopolies cannot annul the capitalist laws of competition,

[4] The new industries show a mortality rate greater than others. Larger capitalists prefer to have hundreds of small concerns ruin each other, and develop demand and technique, after which they enter.

but rather intensify them, they are driven to winning by force. The devices are well known—selling goods for years below cost so as to kill a competitor, cutting off supplies of raw materials, secret rebates, closing of trade outlets, spreading rumors of insolvency, etc. But this is competition still from the economic, not the ethical point of view, except that it is more costly and more destructive. Force provides no escape from those laws.

International Monopoly Competition

When this struggle is transferred from the national to the international sphere, when German and British companies outscheme and outplot each other in China or South America, the competitive costs include the taxes required to maintain armed force as a backing to the respective claims of the competing monopolies. For there is no longer a question of free trade among a multitude of competitors, but of closed preserves for a few.

This means that competition is not reduced; it is transferred to a more advanced level. What is the characteristic of the new monopolistic competition, to employ what sounds like a contradiction?

(*a*) When a few powerful monopolies need either foreign raw materials or markets, and their failure to obtain this may mean collapse and with it national disaster, then the state becomes an appanage of the monopolies and sustains their pretensions with armed force. This adds to taxation and debt, which are now open competitive charges as against the implied charges of small competition.

(*b*) The monopolists seek to avoid this need by creating international cartels and trade agreements, but their inner, explosive needs for development cause them to jockey for more participations, and when this is impossible, to resort to force.

(*c*) The extreme diversity of political and social development between various countries and their uneven economic developments, results in disproportions in the competitive struggle and lead to an immense variety of competitive adaptations, almost as varied as those that obtained before between smaller companies within a narrower sphere, only these now are more explosive, since any solution in favor

of one group of competitors results in too great a displacement to be easily borne.

The Effect of Monopoly Domination on the Purchase of Labor-Power

According to J. Kuczynski, the principal Marxian statistician, the situation of labor since monopoly capital has dominated, has been as follows:

For Great Britain, real wages (money wages divided by the cost of living) have fallen from an index of 99 (taking 1900 as a median date) to 93, taking the prosperous year 1928 as a median date. These express the central point of eight-year cycles of industry. There has been a real deterioration in workers' conditions of 6 per cent in the era of monopoly domination. Relative wages—that is, wages compared to total production—have fallen from an index of 94 to 78 in that period.

For Germany the corresponding figures are: real wages have declined from 100 about 1900 to 77 for the cycle from 1924 to 1935. Relative to total production, they have fallen from about 100 to 44 in that same period. This absolute catastrophe may help to explain the throwing overboard of all liberal economies to produce "national unity" in order to head off a class antagonism that could not possibly endure. German industry has for fifty years been the most monopolistic in Europe.

For conservative France, largely agricultural and with an immense small professional, bureaucratic, and petty artisan class, net real wages declined from 109 in 1900 to 83 in 1935. But net real wages were really more erratic. In 1930 they were even 114 for a good year. For the twentieth century as a whole, on a cyclical basis, there is no marked decline. Relative data are unobtainable.[5]

Kuczynski's interpretations, rather than his calculations, have been contested. They do indicate that monopoly is deleterious to the working class.[6] (His figures will be reinterpreted later, for other purposes.)

[5] These calculations have not yet been made for the U.S.A., although the material is available.

[6] J. Kuczynski, *Labor Conditions in Western Europe* (International Publishers, New York, 1937).

The reasons for this bad result are usually the ability of monopolists to raise the prices of workers' means of subsistence while they impose agreements among themselves to regulate labor conditions, to gazette blacklists of workers who oppose their policies, to sustain each other in strikes, and to maintain lockouts.

Where there is wide competition among smaller capitalists this is not so easy, as many of them would rather treat with labor and so for the moment produce goods while the competing shop is idle. But monopolies considerably reduce the strategic possibilities of labor for dividing the capitalists.

Monopolies and the General Crisis

It has been maintained (or was until the panic of 1907) that the age of monopolies, by smoothing out the disturbances due to competition, would put an end to crises or, at the worst, make them comparatively benign. According to Lenin the opposite is the truth. Monopolies intensify ordinary crises and finally bring about what he terms the general crisis of capitalism. On this point, especially, the Marxians have divided; the leaders of theory, especially, such as Kautsky and Hilferding, took a completely negative view. They insisted that capitalism is better organized due to monopolies and that eventually monopolies, by becoming gigantic, will almost approach a socialist organization of industry.

Crises are the method by which capitalism forcibly gets over its contradictions. If the thesis that monopoly reduces crises were to be maintained it could only be because it reduced contradictions. The contrary thesis of Lenin must be based on the notion that it increases them. All Marxians agree that a crisis resolves the contradictions in order to resume them more intensely, it never *eliminates* them.

How do capitalists get out of a crisis? They replace fixed capital by new and efficient plants, even if the older ones would do. These older plants would not produce cheaply enough and so they are scrapped. The world is full of ghost towns where once-prosperous industries have been abandoned.

They utilize new inventions that cut costs. They cut wages to the bone. These operations do not take place in the order named.

As a matter of fact, a revival in the capital goods industries sometimes follows one in the consumption goods trades. But a revival in the manufacture of means of production is necessary before the new boom is in swing. The life of constant, or rather of fixed, capital, is shortened. In every crisis, the life of that fixed capital is shortened still more, since crises become more frequent and enduring. The renewal of plant investment during epochs of recovery being speeded up by the very intensity of each crisis, the flush on the cheek of capitalism is like that of the wasting consumptive.

Is this crude process of fixed-capital renewal really required by monopolies or can they overcome their difficulties by less costly means?

Theory that Monopolies Make Consumption Continuous

The argument for a lessened need for a crisis uses the uncontested fact that consumption industries rarely decline quite as much as means of production industries; and therefore, since monopolies make employment social and can maintain enormous numbers of workers without fear of dismissal (as was the case with the breakdown of millions of small businesses as a result of competition), that they reduce the possibilities of non-sales of consumption goods, which was the barrier that caused all the wooden soldiers of capitalism to fall back one on the other.

Now, says Kautsky, it is different. The millions of people employed by the trusts need not be discharged because of the blind overproduction for a market that was characteristic of a host of small producers. Trusts can *plan,* and so they do not overanticipate, nor do they have to revise their plans and dismiss workers because of overoptimism, thus engendering a crisis by breaking down purchasing power.

This is a reassertion of three ideas and, say the Leninists, a distortion of a fourth. The three ideas are:

(*a*) That the unplanned strivings of each individual capitalist for expansion are reduced by monopolies.

(*b*) That monopolies can equate their production, by proper forecasting, to possibilities, thus reducing the maladjustments of capital.

(*c*) That capitalism can thus obtain a profit, a surplus-value, and still be able to sell all it produces.

and the fourth, which is said to be distorted:

(*d*) That there is a minimum of goods that must be sold. People must eat to live. Whereas production goods can be dispensed with, as to new production, production for consumption goods must go on no matter what the condition of society. Hence the breakdown of consumption, which initiates a panic, can never be as great as the breakdown of production goods manufacture, and, therefore, once employment can be stabilized, thus being more susceptible to control, consumption goods can always be demanded at above a panic level. Thus panics can either be blunted or eliminated.

The Leninist Reply

The Leninist reply is as follows: Begin with consumption goods. It is the production relations of capitalism that determine employment and hence a slackening of demand for consumption goods. That is how the contradiction is *manifested,* but it is implicit in the needs of capital for endless extension, as otherwise relative surplus-value will decrease, and there is a limit to the expansion of absolute surplus-value, as hours cannot be indefinitely extended.

The minimum of consumption goods can never sink as far as the minimum production of production goods if zero is your limit. But zero is not in question. It is not what is the limit to which either can be driven, nor even the percentage of decline of one compared to the other. It is that the decline in consumption goods proceeds so far that the expansion of capital is arrested. Once that is done you have a panic.

Begin at the beginning. Is the need for the self-expansion of capital by an increase of relative surplus-value reduced by monopolies? If so, the need for crises is diminished. If not, the very bulk of the monopolies would make it all the worse, as also the absence of "spreading" among isolated producers (formerly some of them removed from the main currents of capitalism). For, in so far as there are feudal and artisanal survivals in capitalism, the ravages of its peculiar diseases are diminished for those small areas.

But what are monopolies? They are an extension of the socialization of production of which capitalism itself is a specimen compared to feudalism or mere manufacture, or merchant capitalism. The socialization of production with private appropriation is what brought about the whole business of crises.

How can an intensification of that which led to crises lead to their suspension? If the dialectic answer is made that the increased quantity of centralization, by that very fact, changes its quality, then the test of how it changes quality must be made by a study of its specific products, socially.

Does it retain the reserve army of the unemployed? Even the apologists admit that on a secular basis permanent unemployment is on the increase. Then the monopolies must be producing relative surplus-value more intensely or this could not happen. They are forced to overcalculate the market, but with this difference: they overcalculate a world market where the more primitive capitalists overcalculated a local market. That is the characteristic of the age of *imperialism,* the identification of monopoly capital with banking and government. Any crisis, so conditioned, must be more widespread, not less.

As for the contention that consumption declines can be prevented from reducing production, the two most disastrous short-term drops in commodity prices within economic history took place in 1921 and 1929 at the apex of monopoly capitalism. It has every sign, then, of continuing the inner contradictions that led to crises and of making them more widespread and therefore more intense.

The Fusion of Industrial and Finance Monopoly

If the possibility of a crisis remains inherent in the monopoly system, that crisis must take on forms peculiar to the new stage of development. The specifically new features that determine this change of the crisis-form can be summed up as residing in the fusion of industrial monopolies and finance monopolies. This fusion is basically a new feature of capitalism, becoming significant in the 1890's, dominant before the War, and far more aggravated since. It began, formally, in Germany, where the Bismarck government tried to develop industry at a pace that would duplicate Britain's

three hundred year development, in thirty years. For that the banks were used as long-term financing agents, with government inspiration and collaboration. The capitalistic development everywhere, even in England and America, led to the adoption of the German system, though with different arrangements, in accord with their laws and traditions.

Classical Banking

The ideal of banking in the days of unlimited competition was short-term financing. Any other was considered unsound, because the loans did not mature speedily, whereas the money on deposit was subject to immediate demand or, even in the case of special deposits, at very short notice. The only banks that were allowed to lend on mortgage, or other twenty-year tie-ups, were savings banks, which demanded the right to suspend payments for sixty days if there was a "run" or, as in France, mortgage banks who loaned at very long term and issued thereagainst long-term bonds. Insurance companies that pay out on a well calculated expectation of deaths, were the other long-term lenders.

Nor was this logic faulty. That banks which stimulate and keep the funds of commerce and industry should have these funds always available is a commercial necessity, and the only way to make sure that they remain liquid is to have self-liquidating loans. Hence the bill of lading was attached to a banker's draft, for example, and when the goods covered by them arrived in London or New York, the banker had his money as soon as the draft was honored.

The discount system of the great banks (the Bank of England, Bank of France, and the Federal Reserve Bank of the United States) were based on this type of advance. The banker would give an importer or exporter credit for three months on self-liquidating collateral, at a discount of, say, 4 per cent per annum. He would then endorse the paper of the borrower and pay 3½ per cent to the central bank. The difference of ½ per cent per annum was his, without his having either engaged his funds or taken any real risk.

But his nominal liability was thought to entitle him to this payment, for there were times when the notes were not paid, when the merchandise covered by the bills of lading sank beneath the value

of the loan within a short time, and the banker was out the money if the merchant could not make good. In the meantime all the commercial bills of the country had been turned into ready cash by the central banks, and so the system assisted commerce and kept money sound. Despite the twoscore bumps and dozen major disasters of capitalism, the British pound and the French franc were maintained at the same level on this basis from 1815 to 1914, the longest run paper money has ever had.[7]

Need for Less Fluid Banking Engagements

But this system of financing became antiquated as the development of capitalism required more fixed capital and relatively less circulating capital.

At first the banks formed financing syndicates and issued shares to the public through those syndicates to provide long-term financing. This was especially the province of the great private banks such as Rothschilds in Frankfurt and London, or Kuhn, Loeb and Co. in New York. These private banks still function but their role is quite different. For the subsidiary securities companies of the great public banks like the "Big Five" in London or the "Big Four" in Paris and Berlin, or such dinosaurs as the Chase and National City banks in New York, soon took up these functions. They had the great deposits of these industrial companies and it was natural for them to finance the companies.

Actually, their own advances, however disguised, were now made on a basis of constant renewals, so that in essence banking credit became more "frozen," whatever the apparent maturity of the notes. The inevitable development of industry by way of the factors that compelled the capitalists to seek a higher relative surplus-value or go broke, mirrored the banks in the image of these industrial needs.

Medium-sized banks could no longer hope to compete, as they did when they, as well the the biggest, could instantly turn their paper into cash by rediscounting it with the central bank of the country. Now it required big money to finance industries for a long

[7] The dollar, fixed in 1836, suffered more, mostly on account of the Civil War. But it came back to the 1836 level until 1933.

run. Finance companies took on immense liabilities when they issued shares or bonds, for the public might not buy them, and they would have to "nurse" them.

The concentration of banking capital proceeded at a pace that surpassed that of the industry it served. In England banks got down to five large ones and five others; the remainder were controlled by the five largest. Today these five banks have deposits of more than ten billion dollars, or about 90 per cent of all deposits in the country, and have scattered 11,000 branches in that little island. In Germany it was more pronounced: four banks had about 95 per cent of all deposits. In France, as always, the industrial system being more scattered, so was banking, but still the Big Four of Paris held over half the deposits.

In the United States a hybrid system came into being. Banks numbered in the tens of thousands (reduced to about 18,000 before 1929), but that apparent diffusion was merely the *form* of concentration. The dozen houses of issue, such as Morgan, Dillon Read, and a few large banks, about ten in New York, one in Boston, one in Pittsburgh, two in Philadelphia, one in Cleveland, three in Chicago, and two or three on the Pacific Coast, accounted for 99 per cent of financing of large public companies.

The Morgan interests controlled about a fourth of the industrial capital, and they and the Rockefeller, Mellon, duPont, and several other interests between them controlled nearly a half.

The fusion of industrial and finance monopoly, though, was never as complete as in England and Germany, because of the size of the country, its comparative diversity, its extremely different stages of development—some parts financial, others heavy industrial, others great farming empires, others on a semicolonial or semifeudal basis. The lack of "jell" in American economy reduced the totality of fusion, but still that fusion dominated easily four-fifths of the functioning industrial and financial capital of the country.

In France, where the fusion was not so complete, nevertheless two hundred families controlled everything important, domestic and foreign.[8]

[8] The most perfect study made for any country of the personal character of the industrial-finance oligarchy, including their daughters' dowries, is A. Hamon's *Les Maîtres de la France* (Paris, 1936-1939, 4 volumes).

Intense Use of Banking Capital

Most interesting of all was the "stretch" of banking deposits. In 1890, when British banks financed on a self-liquidating basis, deposits were six times the capital and reserves of the bankers. By 1932 they were sixteen times the bankers' capital and reserves. The ratio of profit was greater, since profits arise from the loan of deposits, and the higher the ratio of deposits to capital the higher the rate of profit on the capital. In this way the banker compensated himself for the long-term tendency of money to get cheaper.

Besides this he now had a real money-making need for cheap money, unlike his father before him, who liked dear money. In 1931 the situation of the British banks was deplorable. Their loans to the continent of Europe were dubious and their commercial loans to colonial countries were imperiled by the catastrophic fall of raw material prices. The pound was devalued. That did not suffice. The rate of interest on government loans was lowered by the great conversion of 1932. At one blow, by devaluation, the banks reduced their liabilities, in gold, to their depositors, by over a third and, by making their bonds worth the difference between a capitalization at 5 per cent and one at 3½ per cent, they became solvent.

That is, a 3½ per cent annuity is worth only 70 when money is 5 per cent, but 100 when money is worth merely 3½ per cent. Their commitments in bonds and fixed investments were so much greater than in liquid investments that they clamored for cheaper money and got it, and even got economic philosophers like J. M. Keynes to prove that this is the permanent method by which countries can be made rich, the Ponce de Leon fountain of youth of banking.

Interlocking Directorates

The proof that they are no longer banks in the classic sense is that the directors of the big five banks of England, between them, held 1,275 industrial directorates besides. The fusion of banking and industrial monopoly was fully accomplished.

In the United States interlocking directorates were nearly as complete. One financier, the late Charles Hayden, directed everything except the planetary systems.[9] His assumed all-embracing

[9] These he covered in his gift to the Planetarium in New York.

knowledge of a hundred industries makes him the peer of that English scholar of whom it was said that "omniscience was his foible."

The lesson of all this, say the Leninists, is plain. Since all capital and finance are fused, the avenues of escape are diminished. They all go together on the upcurve and they all go together on the toboggan. Crises are not provided with safety devices.

All the companies that count are quoted on one stock exchange. All the banks are based on the same types of investment and they are all tied up. When values crack, their solvency goes.

The old-fashioned banker regarded panics as a godsend. The fools had speculated; he had kept his money in liquid commercial paper; now he could use the differences in his pocket, his hard cash, to acquire factories and railroads on the cheap. Not so the new banker (except as to shiftings of interests within the set-up). Identified with industry, there was no other sphere of capitalism to look to as a fire escape. *The spheres of production and circulation are one.* The bankers now become as jittery on values as the stock-exchange gambler.

Government Is Intertwined with Monopoly

Since there is no escape within the capitalist system, the banker no longer demands that the government stay out of business. He still denounces its interference with him, but he welcomes its collaboration in disaster. From now on the state has a new function. The banker is a cat. He insists that the government feed him liver and milk when he is hungry, but that he can miaow at it as soon as he is full.

The government becomes his partner in adversity, but it is to take its hands off as soon as "confidence" is restored (with the government's advances). It must *refloat* business and then leave it to its own devices.

In some countries like England, and above all Germany, this is now the established form of government. In America the resistance of the smaller businessmen, the middle classes, and the unions, has prevented this situation from becoming the economic-political form, although some features of it do exist.

Hence the net result of the fusion of monopoly finance and

monopoly industry is a new stage of capitalism, *imperialism*—that is, the use of the government's resources and foreign colonial policy, to assure the solvency of the finance oligarchy.

They can use no other means to get out of crises: the self-remedying features of production at lower costs and of lower prices, although still the basis of any recovery, are no longer, due to the present inelasticity, quite enough. The alleged conflict of industry and finance, once real, is now true only of that section of industry, still large but not dominant, that minds its own business. But though these capitalists are still important, they do not set the "tone" of industrial upswing and crash.

Stock exchange brokers and gamblers are mostly outside the fusion, but their role is shrinking daily. In Europe they mostly execute orders for the great banks and insurance companies; their independent customers are lessening. In America the diminishing liquid resources of the middle classes means that there is a diminishing function for the stock exchange, since there is less to transfer from the smaller pockets to the larger by means of tempting the middle class to attain fortune by forecasting the future of values.[10]

To summarize: The Leninist's view is that monopoly increases the competitive dangers that lead to crises, and that the identification of this monopoly with finance and banking means that the crises of the future, by reason of the fusion of production and circulation, will be deeper and harder to get over than ever before. This leads directly to the celebrated theory of the *General Crisis,* that is, an epoch for which crisis is normal, and where it is no longer merely the method by which the contradictions of capital are forcibly resolved on a higher level. Crisis now changes its nature. Within the General Crisis, there are cyclical crises, but their function is wholly altered. That total thesis requires, though, a study of more than mere finance imperialism to sustain its pretensions.

The Export of Capital

Until the present juncture, we have assumed that goods are exported abroad and capital reinvested to produce those very goods at

[10] The stock exchange, like an old wanton, is growing virtuous as its opportunities diminish.

home. Now this has never been wholly true. Capital was exported in trickles as early as the seventeenth century by the Dutch, and part of the plunder of the Indies and the slave trade found its way back in the eighteenth. But it was not until after Waterloo that the revolt of the South American colonies against Spain opened up a group of so-called independent, feudally organized, poor governments, which were to become financial colonies instead of being formally annexed. Houses of issue in Amsterdam and London placed these government bond issues with the rich manufacturers of Holland and England, and the export of capital commenced on a serious scale. But it was so subsidiary that as late as 1850 men like Bright, Cobden, Mill, Cornewall Lewis, and other great English statesmen thought that colonies were a nuisance, and the export of capital with its chronic defaults, a delusion and a snare.

It was not until the American railroads produced fortunes for English investors that the tide turned. By 1860 the colonial and capital export policies of England became important, apart from the plunder of the colonies. They were to be sources of investment as well. The immense development of the United States, mostly on the basis of Dutch, British, and some French capital, for a decade took up the spare capital that Europe could not employ at home.

But in the 1870's the imagination of capitalists was fired by the cheap wheat of the Mississippi Valley, the Suez Canal, the interminable pasture lands of the Rio de la Plata. Profits were higher than at home. The stream of capital thickened.

By 1880, the investments of European nations abroad were 5 billion dollars, by 1890, 10 billions, and then came the flood. By 1914 they were in excess of 44 billion dollars, and even the United States, their then debtor, had 2 billions abroad.

By 1900 the proportions of profit, or net income, from the exports of goods and the profits from the export of capital had changed the financial emphasis of many countries. England's net profit from foreign trade by 1895 was $100,000,000 a year and her income from capital abroad was $500,000,000.[11] The whole of Western Europe, Belgium, Holland, Switzerland, France, were in the same category,

[11] In our day the figures are for foreign trade $500,000,000, for income from capital abroad $2,100,000,000.

and even industrial Germany, though not so overbalanced, still was assuming similar features. The United States, which owed money on balance at the outset of the Great War, had a foreign capital income twice as great as its trade income from abroad, by 1928.

In this way capital had escaped partly from its dilemma of over-expanding capital at home in proportion to consumption growth. It transferred part of that surplus capital, whose yield at home was small and whose scope was circumscribed, to the colonial or primitive or underdeveloped lands where the rate of profit was higher.

Even on secured loans, the rate of interest on foreign bonds was from 1½ to 2 per cent greater than on domestic securities. But the bonds were nothing compared to the infinite returns on the gold and diamond mines of South Africa, the public utilities undertakings and railroads in the Argentine or Egypt.

Thus capitalism escaped strangulation from its own contradictions. It took care at first (in the primitive lands), to develop agriculture and mines and transportation and some light local-consumption industries, but it never developed factories for manufacturing the means of production (either machines or heavy industry) in the colonial countries.

Later on it had to permit some of this, but it always held the reins of productive power at the source, in the home country that exported the capital.

Vital Results of Capital Export

The lands to which capital was exported became primarily sources of cheap raw materials, through this stimulation of capital, and thus not only provided the domestic capitalist an income from investment but cut his raw material costs as well, and so increased his profits. It also created new markets for products, thus overriding the limitations of consumption at home. The export of capital fed the export of goods, but the emphasis remained with the export of capital, for it was the cause of this trade feature.

It was not so much a question of the *proportion of business* in the capital export lands to those near by. The trade of every European country with its near neighbors far exceeded (in money) the trade with the capital importing countries. But it was the profitabil-

ity and the use of that market as the special solvent for home difficulties that made it invaluable. It had a quality as well as a quantity of profit that was needed.

It did not matter for certain purposes whether these countries were made political colonies or not. But for others it did. The Argentine was effectively a British colony like South Africa. But there was a sureness in controlling sources of raw material and closed markets (if it became necessary to close these) that political control alone could give. Here too calculation is not the surest guide to analysis.

At any rate, the colonial domain of the great capitalist states increased from 3 million square miles and 148 million inhabitants in 1860 to 20 million square miles and 600 million people by 1914. If one adds the colonial conquests of Russia the figures come to over 22 million square miles, or more than two-fifths of the globe. The so-called independent countries, South America and China, conserved a fragile political independence but were financial and commercial colonies.

Expressions of International Monopoly Rivalries

The effect of the export of capital, coupled with the fusion of industrial and banking monopoly, means that the financial oligarchy at home is identified vitally with this outlet for capital abroad, with the control of raw materials and of subsidiary markets. Hence the struggle for these advantages, at first expressed by unstable international "cartels" and later more by unrestricted competition, when the agreements break down, can end only in wars.

Armaments Are a Basic Industry

To equip the state to defend monopoly interests, a new set of industries and activities become significant, and later even primary. These are the military and armament trades and professions. Designed to serve the interests of the finance oligarchy abroad, to protect their capital and the markets for goods that have become but a function of those investments, and the raw materials that would be imperiled by a loss of that capital, and driven by the ever greater need to overcome the capital-consumption contradiction at home,

these military forces take on an independent life in the economic system. Their great importance begins with the imperialist age.[12]

By 1900 the cost of armies and navies and the interest on war debts reached 7 billion dollars a year. By 1914 they were about 13 billions. In 1939 there is no longer any use in citing "figures."

For Germany and Japan, the production of war materials has become so important a part of their economy that it is unthinkable how it can ever stop, unless it is successful in obtaining for them a profitable set of new countries that will yield actual capitalistic income. But to do that requires a major war, and that in turn is so costly that it is doubtful if it will not lead to capital-consumption contradictions too deep to be resolved within the system.

Italy is nearly as completely governed by armaments, and it is no secret that in England armaments are expected to be the balance wheel of industry from now on, if not, indeed, its motor. That so large a section of capital provides no new means of exploitation but, from the standpoint of the creation of future surplus-value might better be thrown into the sea, marks the end of a cycle. For now, crises are world-wide, monopoly makes them deeper, the state is their only surcease, she is armed to the teeth, that armament becomes larger than the quantity (not significance) of the interests it defends, and this defense provides for no further surplus-value to replace the surplus-value it protects. Hence the general crisis is manifested, that is, an epoch in which the restoration of surplus-value by the ordinary mechanisms of capital is no longer possible. The crisis overlays industry, although within it there are upsurges and declines, but they take on a character special to this era.

NOTE: The crisis of 1929-33, is, for the Marxists of the Leninist school, a confirmation of the foregoing scheme. Capitalism no longer has Russia to hope for as an area of exploitation, because of the proletarian revolution in that 16 per cent of the earth. The upsurge in the colonies, such as India (the most profitable of all Europe's possessions) and the disorders in China, considerably reduce the possibilities of capital export.

[12] This is not, of course, a complete social description. The rise of the national state and of mass armies after the French Revolution made the mold for this new monopolist military form.

Thus over 900 million persons are either excluded or diminished as subjects for new exploitation in territories in which capitalism can extend its operations so as to blunt its contradictions in the home country. The example of these colonial or proletarian resistances, once they are well established, will imperil the entire area of the export of capital, with the possible exception of that to Latin America by the United States.

Constant capital is so gigantic compared to variable that unemployment is now universal, reaching the tens of millions and never really solved except by charity or slavery. This produces no surplus-value in the capitalist sense, in any event.

Whole sections of the productive apparatus are unused for long periods; there is a chronic oversupply of fixed capital. It is not eliminated by each upsurge, it remains an overplus, though not so much as at the bottom of the crisis.

But capitalism does not go on to a much higher level of production than the former prosperity. It may equal or slightly surpass its former level, but it can never, any more, lead to a new world-wide boom. Any boom possibilities are now due either to special features or would be confined for a very short time to only a few countries. The old rhythm of each crisis leading to the same contradictions but on a much higher level is not met with.[13]

Even in the boom of 1923-29 in the United States the number of men employed in industry itself did not increase. The farming crisis reacts on the industrial. In America the farmers became steadily poorer throughout the industrial boom to 1929. Thousands of banks failed in rural areas. The price of land declined. Raw material prices failed to keep pace with those of manufactured goods. The "scissors" widened, that is, the difference between what the farmer gets for his crops and pays for his needs. In some countries agriculture enters into secular decline (India, China, etc.). The farmers can no longer pay $2,500,000,000 per annum to finance oligarchy and parasitic rentiers of Europe and Wall Street.

Now the dire day prophesied by Engels has come. Capital, real capital, no longer expands, or rather, hardly expands.

[13] Rather the contradictions remain during the recovery, but are kept from manifesting themselves by maneuvers; so much the worse the situation when they must emerge once more!

Irregular development becomes the rule in this state of affairs. During a boom whole countries are depressed as are whole industries and agriculture. A general upsurge never exists. Even in the American industrial boom of the twenties, the percentual gains in production were the smallest ever known per annum in any previous upward section of a cycle.

The 1929 crisis was more prolonged than any other, considering the damage done during its five years. Its scope was wider than that of any other; its production and employment decline made all other crises dwarfish by comparison; and, above all, monopoly interfered with price adjustments downward, by which "normality" was formerly restored. Finished goods maintained their prices more than intermediate goods, and means of subsistence went down less than colonial raw materials.[14] Monopoly goods declined less in price than competitive goods.

Stock exchange values had never previously fallen so low. The American index fell from 383 to 41. Money collapsed; not one currency survived. Dollar, pound, all went down 40 per cent or more. The new issue of capital, the lifeblood of capitalism, has almost ceased and foreign lending has ceased. Not even recovery has helped this vital phase of capitalism to be resumed in anything but the most restricted quantity.

In no crisis, too, has the real wage of the working class been so slashed. The contradiction between the consumption growth and that of capital is altered, for now it is rather that the workers' consumption is cut by low wages and unemployment and capital does not add to its *capacity* for extracting relative surplus-value, its saturation with constant capital being permanent. (It extracts that surplus-value more primitively.)

While the Leninists do not pretend that this is a complete picture of the general crisis, they hold that capital always has an "out," which "out" will be a war for the redivision of the world. For that reason they say that the so-called autarchy and nationalism of the present crisis is merely an organization of each finance-oligarchy to restrict its international interests so as to build up armaments and finds its escape in

[14] The decline in international trade, both in volume and price, was so much more than in any previous crisis that we must look on it no longer as comparable, but as having a wholly new significance.

the classic manner of obtaining new areas and populations for exploitation. It is a retreat made to effect a sortie.

It is impossible to follow the numerous detailed theories of the mechanism of the crisis and the "special recovery" from it, all within the general crisis. The leading systematizer of this approach is Varga, formerly of Budapest, now of Moscow. On the tripod of the chronic surplus of fixed capital, of the agrarian difficulties, and of mass unemployment, he features devaluation as a new quality, government aid, etc. He also stresses the lessening gains due to "rationalization." [15]

In the study of crises, we have not dealt with the size of inventories, as these are derivative from the contradiction of capital growth and lesser consumptive possibilities. It is true, though, that in 1932 the depth of the crisis showed the largest inventory index in history and led to the destruction of coffee, etc., to sustain prices and to a multitude of schemes for restricting copper, tin, rubber, and even grain crops. The destruction of wealth was urged as a remedy for the crisis.

The General Crisis epoch, according to this analysis, results in a double feature: countries become more like each other owing to industrial development, and more unlike each other in the scope and direction of this development. Contradictions grow thick; in order to protect the now immense investments in fixed plant and machines, inventions are scrapped, yet certain sections of industry are equipped to go ahead rapidly; there is a tendency to stagnation in production gains as a whole, but not in decisive sections in which the capitalists see some possible issue to the central difficulties that arise from that general stagnation.

Capitalism develops large parasitic groups of investors—"the idle rich"—and yet shakes them off like snow from a bough, by devaluation, or capital restrictions, or panic destruction of stock exchange quotations, when they cost the finance oligarchy more than it is worth to nurse them.

We are now at the stage where, as Engels stated, the contradictions between social production and capitalist appropriation—the mode of production rebelling against the mode of exchange, the sharpened class contradictions—are *chronic*.

[15] Varga, *The Great Crisis* (International Publishers, New York. 1935).

At this point political economy comes to its limits. For Marx the economic science with which we are concerned deals with capitalism. If, as the Leninists assert, the present position of capitalism makes its very survival in large parts of the world dubious, a wider study is required than political economy itself.

NOTES *on Marxian Theory as Applied to the General Crisis:*

The following interesting Marxist adaptations attempt to deal with the current economic situation. They are essays, not dogmas.

It is held that the refusal to renew fixed capital on anything like the former basis permanently lowers the rate of profit (not that of surplus-value) and so the monopolists prevent new small capital from competing because the reward is not sufficiently great. The tendency for small money is to flow into government bonds, etc., that is, to be increasingly dependent on production at secondhand.

The increasing diffusion of technical improvement from the older industrial countries to others, formally looks like a more even development, but actually it intensifies needs for markets, etc., and thus increases the unevenness of national developments, since their needs are more than ever disproportionate to their possibilities against the older industrial-finance-imperialist states.

The depth of the last crisis being qualitatively different from any previous one, because the intensity was so great as to alter the social character of the consequences, resulted in a schism of the governing class themselves. The monopoly capitalists, who refuse to follow the older flexible methods of ending a crisis, become chauvinistic and reactionary, and organize political dictatorships to counter not merely the working class, but to eliminate the smaller capitalists by force. This is done by utilizing all the noneconomic heritage, such as nationalism. This is *objectively* a vindication of Marxian prophecy, since it reduces the exploiters to a mere handful and, ultimately, diminishes class divisions among the other people. The economic basis is their *monopoly of surplus-value*. As this monopoly means that the reproduction of capital is no longer possible in a closed capitalist economy, as a long-term realiza-

tion, they seek war or its equivalent, a gain of markets and resources by the threat of war.

The social legislation and accompanying unionization of workers means that the industrial reserve army may be stripped of its historic function as the cause of lower wages. When the next cyclical crisis occurs, then the remedy cannot be lower wages, for the provision of relief, etc., will reduce the capacity to extract surplus-value. This scissors of *no reduction of wages* and the *increasing levy on profits for relief,* by way of high corporate taxation, may create a new balance of class forces. Thus it would be shown that the "system" of Marx was a description of the laws of a specific relation of classes, and is modifiable by class action. Marx emphasized the means of subsistence theory because thereby the mobility of class relations could be effected.

Imperialism is not fixed in its movements. For example, in 1931 England by devaluation preferred to use her position as a buyer to blackmail the raw material countries, because they either would sell to her (she buys a sixth of the world's goods) or go into still greater economic misery. That is, England dried up the sources of dividends and interest in order to obtain a gift from primitive countries towards her domestic recovery. Then the capitalists, stimulating a world recovery, somewhat increased the income-remitting capacity of the colonies and dependent states.

Figures are increasingly unilluminating on finance imperialism. In 1914 France had 8.7 billion gold dollars abroad. She lost a third by war and repudiation. But today she has 4 billions or more abroad at short-term. Has her long-term loss been really as significant as her strategic gains in short-term irruption into other financial systems? This movement of "hot money" from one country to another is a great weapon of capitalist competition, for it makes all currency situations consistently unstable. These new predatory moves, within the system, have developed since Lenin's analysis of France as merely the "usurer state."

The export of capital has gone down considerably since the war and almost totally in the 1930's. Receipts of income and dividends from abroad have suffered considerably. Stock exchange collapses have also clipped the parasitic incomes. It

is clear then that Lenin's analysis of growing parasitism must be translated as the last great *channeling* of middle-class survival wealth into the service of monopoly capitalism. When this is completed, then its *appropriation* is the order of the day.

Dumping is increasingly used to dispose of goods abroad without allowing of increased wages at home. So long as the home situation can thus be kept profitable the loss abroad is merely a necessary charge to permit the fundamental relation at home to continue. This is the reverse of the underconsumptionist theory of Sismondi or Luxemburg. For here reproduction on a home basis is the *object,* dumping abroad not a means of realizing surplus-value but of paying for its realization at home. (This is advanced in Anna Rochester's study of American finance; it is ingenious and opens more issues than it closes.)

Giant armaments are declared to be a function of the second stage of monopoly capitalism, since previously small armaments could subdue primitive peoples, as in the first stage of imperialism, but now the struggle of the monopolies to divide each other's spoils requires large armies for the contest. Hence large armies, etc., are a direct secondary cost of monopoly capitalism.

This theory is plausible but somewhat too cut and dried. The armament burden of Europe has been increasingly grievous in the last eighty years. From the Crimean War on (1854) the competitive costs of rearmament have advanced. Imperialism was only one reason; the need to acquire resources in Europe (as the Lorraine iron area in 1870) and to control an increasingly urban and industrial population at home were important factors too. But the theory of the second stage of monopoly capitalism is the only one that explains the substitution of military production as a *basis* as against production ultimately aimed at consumers' goods.

32

Money, Investment, Debt, in Present-Day Economy

Marxist doctrine prophesies that the centralization of industry and banking, in an era of sharpening crises of capitalism, will produce financial forms that correspond more closely with the present class relations. For example, the use of cash has diminished and that of checks has gained, until in the United States today money (including paper money) is really used only for retailing.

One has only to compare the circulation of money in a country where actual bills still circulate and where well-to-do people walk about with large amounts of money on their person, as in France, with a country where such a person would be an eccentric, as in the United States.

The population of France is 42 millions, of the United States 129 millions, or more than three times that of France. The circulation of money here is about six billions whereas in France it is not two billions, but on a basis of 35 francs to the dollar, is our three billions. When francs were 15 to the dollar, instead of per capita circulation being a mere 50 per cent more, it was over 100 per cent more, in terms of dollars.

That does not explain the total discrepancy. For although the United States today uses far less actual money than in 1913, the circulation of money is far greater. For the United States needs a large circulation of money for other than commercial transactions.

The new need for currency is an extension of those described in Marx's elaborate study in the third volume of *Capital*. Its special feature, above all others, is the increase of debt and share capital that has called for so astonishing a divergent use of money from its normal circulatory purposes.

Rise of "Paper" Prices

The national debt of England was terribly swollen before the World War. It was four billion dollars. Now it is forty billions. The United States federal debt was two billions. Now it is forty billions (approximately). The French debt is in the stellar regions; the printers' fonts must run short of figures to record it. All paper "values"[1] have increased beyond belief. The "value" of shares on the New York Stock Exchange, which was surely not in excess of ten billion dollars in 1913, rose to 88 billions in 1929, and when now it sinks to 30 billions (in depreciated money) it is indicative of "national ruin."

When an industrial stock once sold at ten times its earnings, solid men in Wall Street shook their equally solid beads. Today they consider that ratio conservative.

There are many explanations attempted for this strange fact. The Marxian is one of the fundamental studies. For Marx the tendential fall of the rate of profit carried with it a still greater diminution of the rate of interest. That means that it is harder to get a return on money but, paradoxically, those who get that lessened return are "richer." This turns on capitalization.

Capitalization Rises at the Rate of Profit Falls

For example, when money is at 4 per cent, a bond yielding 4 per cent a year sells for $1,000, that is, the right to receive $40 a year and keep your principal is valued at $1,000. Suppose the rate of interest to fall to 3 per cent. At once the right to receive that $40 a year is worth more, since a $1,000 bond yielding 3 per cent would now sell for $1,000, hence one commanding 4 per cent is worth above $1,000.

Shares of stock are affected by this movement. If money invested in government bonds will yield only 2½ per cent, investors look gladly to good common stocks yielding 5 per cent. Hence these shares are bid for and rise in price.

The declining rate of interest (disregarding intermediate fluctuations) is fundamentally part of the declining tendential rate of

[1] Popular use, not Marxist.

profit. That means that the shares of stock represent an equity in declining rates (not mass) of profits. But that does not put down their values, as common sense would indicate, but puts them up.

No one is going to let a first-class share yield more than a certain amount above that of a good bond. So it comes about that as the rate of profit tends to decline, all persons who hold claims on income are "richer." Along with the lamentation that they do not know what to do with their money goes its increased capitalization.

How British Capitalism Used This Tendency

An interesting example of this reasoning appeared in England in June, 1932. Trade was at the lowest level in a generation. So were profits. The currency had been devalued by some 25 per cent and still share prices tumbled even in the bad money, because profits looked far away. Money went to absurdly low levels because no one could make any profits with borrowed money. The government bonds, despite this low rate of money, were very low because it was argued first, that the money in which they were expressed had received a body blow and might get worse, so that one got no yield at all in terms of *gold,* but only a loss, and secondly, that bad trade means a poor yield of taxes and so the bonds were shaky as to their interest basis, since if the government kept on yielding deficits there was a possibility of real trouble.

Thus one had a situation in which no one would bid for money and yet bonds were on a 5 per cent basis. This very absence of use for money was seized on by the government (at the instance of banking monopolists) as an excuse for conversion. They were right. Once the 5 per cent bonds were converted to 3½ per cent the question for the resisters to conversion was what could they do with the money if they declined to convert? Put it into trade loans? These yielded still less. Commercial discounts? Still less. Other government bonds? England's mess was part of a world mess; it was a general crisis.

They took the 3½ per cent instead of 5 per cent, and exchanged their old 5 per cent bonds for the new 3½ per cent bonds. The old 3½ per cent bonds that had stood at something like 70 were worth now 100. The shares that had yielded 10 per cent were now eagerly

sought, and despite dark business prospects they fell to a yield of 5 per cent, that is, they doubled in value. At one stroke of the pen England was nearly 100 per cent "richer."

We see why Marxism is not a formal science. The fall in profit rates does not lead to "automatic collapse" but to its strategic use by monopoly capital to save itself at the expense of smaller capitalists.

American Experience

The United States went off gold; repudiated its very receipts for gold, its very ten-dollar bill which stated that that bill was merely a receipt for a specific piece of gold deposited in Washington and payable to any bearer without a moment's delay, on his demand.

Then the wail went up from the sound-money crowd in Wall Street [2] that no one would ever trust the government again and its credit was ruined.

"He that filches from me my good name," cried "honest" Iago, is a rascal. Perhaps in Shakespeare, but not in life. The credit of the United States has never been so high as it is today with a dollar at 59.06 per cent of par, after a wholesale repudiation of its covenants, and with a debt mounting perpendicularly. The more we owe, the greater our deficits, the worse our money, the deeper our dishonor, the higher our credit. This requires not an ethical but an economic explanation.

Credit Is Not Correlated with Mass of Debt

When Britain owned eight billions before the War that credit was good; now that she owes forty billions it is equally good, although her production of wealth has risen but slightly, certainly not a fifth of the rate of increase of the debt, perhaps not a twentieth. The debt of England is $5,000 per family, which is a pretty sum when it is computed that a majority of English families have never seen $500, and that among the workers there are a great number who would not recognize a five-pound note and who count in shillings because "quids" or pounds are, for them, on an astral plane.

The net result of the evolution of capitalism is that the advance

[2] Including myself; that is what the French delightfully term "professional deformation." [*Author.*]

in debt and "values" far outstrips any gains in production or even in profits as a mass. For it is not the mass of profits that is the basic factor in capitalization; it is the rate. That is not to say that the rate of profits is the only factor, but it is, so to speak, the accordion spreader. When the mass of profits of American corporations sank to very low levels in 1931-33, not even a high rate of capitalization could, of course, capitalize dividends that were not there. But for all that the prices of these semi-defunct shares also rose, because the valid ones that paid a return had risen, and there was a hope that revival meant a revival of profits for the fallen as for the upright.

"Values" a Class Conditioning of Physical Production

One sees this different most clearly in "land values." The price of an acre of ordinary grain land in the Prussian province of Pomerania has always been a multiple of that of similar grain land in Iowa. Yet the farmer in Pomerania whose land was "worth" three times that of the Iowa farmer ate only potatoes, and meat but once a week, for Sunday lunch, if at all. The difference in prices was due to factors having little to do with production and, in this case, even unaligned with net profits.

Circulation of Money Is Constantly Less Aligned with Trade

The increase of circulation of money since 1914 has been related to these needs, rather than to commerce and exchange. The volume of world trade since 1900 has increased at a snail's pace, the price at a hare's run. It has been largely due to the need of moving this immense weight of paper resulting from the tendential fall in the rate of profit, combined with the fact that war, and its waste, has transferred claims from those who own goods to those that claim them from the producers. Surplus-value remains less with the producing capitalist and more with the sharers.[8] (We assume, for this study, that these are different persons, real or artificial.) The share of taxation is enormous and its class meaning is rather new.

For the sphere of circulation now becomes more dramatic. If a

[8] Of course, the monopoly industrialist, because he is intertwined with banking and insurance and "investment trusts," has hedged these claims on industrial capital.

Proudhon and his followers looked for the source of all our woes in credit in 1844, the present world thinks of little else.

Everyone wants to restore stock prices as the prelude to production. That stock prices represent a capitalization of profits and that these arise in production is completely obscured. The stock market is an *index,* it is thought, of future profits. Put up the *index* and producers will be encouraged.

Therefore men like Keynes regard the whole game now as *psychological,* as manufacturing confidence, and they have come to believe that political economy is a species of hypnotism and that if the eye of the producer is kept glimmering long enough on the diamond of hope [4] we will never have another panic. In other words, the thermometer governs the weather, the barometer the winds.

These are not analogies, say these learned psychologists. For the wind bloweth where it listeth but man is conscious, he can be influenced.[5] This is the crowning absurdity of subjective economics: poor Böhm-Bawerk would not recognize this spotted grandchild!

But why have these indices, devaluations, etc., become the qualitatively new factors in capitalist evolution? First we must look to changes in the sphere of *production,* in the relations of classes, or surplus-value, of the relative wages, of organic composition of capital. Then we must see how, out of the surplus-value, a new partition has occurred in the sphere of circulation. Lastly we must study both the rate and mass of profit. For unless all the historic variations of the last quarter-century are understood in real terms we shall be forced back to the techniques of a J. M. Keynes.

Meaning of Debt in Class Terms

What is the meaning of increased national and corporate debt and its corollary, higher taxation? In America today there is a payout of interest and dividends that reaches into the tens of billions per annum. Relatively those burdens, whether expressed as national, corporate, mortgage debt, or even fluctuating dividends, functions very much alike—they are *repartitions* of surplus-value, not addition

[4] Crystallized cheap money.

[5] They say money policy is a thermostat.

to surplus-value. But that leads to another question: Has the mass of surplus-value increased out of which these subsequent dividers, usurers, governments, etc., are paid?

NOTES: It is necessary here to resume the Marxist theory of money. Money, or gold, is a universal equivalent of goods, because it is itself a commodity that embodies labor-time and can function as the one commodity in which all others realize their immanent value. But we know that gold is replaced by paper money, and that, in turn, exists mostly for paying wages and in turn is used by the workers for retail purchases and payment of house rent. It is also used by rich people only for retail transactions, and even these are mostly billed and paid by check.

The proportion of gold to paper is usually less than 100 per cent; it ranges from about 25 per cent to 80 per cent in most countries with a sound currency. We have seen that an inflation exists only when the amount of money in circulation, however composed, exceeds the amount of currency.

Actually money transfers can reach fantastic amounts without there being an inflation, since they would not exceed the velocity of circulation times the price of commodities, for which a currency is required.

Thus the circulation of the Bank of England is some 450 million pounds, the gold back of it some 300 million pounds, the "exchange equalization fund" that sustains it either zero or 300 million pounds, depending on the fortunes of British in-and-out payments, and yet the clearing of checks, that is, the use of currency, is 42 billion pounds, or a hundred times the official circulation, and as in England there are only five great banks that do 90 per cent of the business, one must add checks within each bank so that it is probably 140 times the amount of money in circulation.

Yet that is not an inflation. If it does not exceed the turnover of commodities multiplied by their prices expressed in the value of gold, the pound will remain good money. That is, if the value of gold is 1,000 labor-hours per troy pound and, despite this amount of paper circulating it appears still to command 1,000 labor-hours of other commodities, it is good money.

It is only when 1,000 labor-hours expressed as, say, 50 pounds, buys twice the commodities it did formerly that we call it 100 pounds instead of 50 and say that the pound has been devalued, lost half its value.

The Marxian referent is always the labor-time embodied in the universal equivalent, gold, and it is only when that *time* commands more than it should that we speak of prices having risen, that is, it takes more commodities to buy the same amount of gold. Then the paper certificates or book credits have to be twice as high to acquire that gold. The actual *currency of money* has been doubled.

The Basic Marxist Theory Requires Elaboration

Now what occurred during the World War was first a continuance of the permanent tendency of money to cheapen. For if the amount of production is still gaining, if more commodities (or money) are acting as capital, then money capital is making more money, quantitatively, all the time and the currency of money required is increasing.

The total of exchange-values can be increased only by further production, by a further accumulation of capital. Each accumulation gives a capitalist the right to command an equivalent amount of commodities, and so he has more "money."

Not only this, but although gold is more abundant (that is, produced in less time than formerly), commodities on the whole are being produced even more efficiently, so that they constantly are worth less gold, that is, they rise in price. That is why, despite all the gold mines that have been discovered in the last three centuries, prices have risen very much.

That would explain why prices have risen by, say, some 50 per cent in the last few years, but it would not explain the enormous increase in the use of money in the sphere of circulation which those prices somehow maintain. It is some explanation but not *the* explanation.

A second explanation is that of booms. In booms goods are sold above value and so everyone thinks he has an immense amount of profits to reinvest as capital, but so soon as capitalist production is stopped by the Chinese Wall of consumption, goods are offered

below their value, and the fictitious "money" used as credit goes the way of any soap-bubble. True enough and important. But it would not explain to a Frenchman why his money has gone down by 93 per cent since 1913, whereas it blithely supported a round dozen of crises for a century. Nor would it explain to an Englishman how his debt has gone up fivefold, and prices expressed in pounds are still not fantastically above those of 1913.

How Debts Operate

During a war a government needs billions. During a reflation, such as we have seen in the United States since 1933, it needs billions. Taxes simply cannot suffice, since if this money is taken by taxes, surplus-value is abolished. But we live under capitalism, which exists to conserve this surplus-value (basically). Some diminution of surplus-value enjoyed by the producing capitalist, and even by the circulating capitalist, must occur, since they have the mass of capital and the people have merely consumption savings. But it can never interfere with the basic drive for profits, or the system is over, and we are not here concerned with Utopias.

So that if the government needs billions, for war or recovery, it cannot get them out of profits actually arising within any given year.

Instead of drawing on claims on commodities that exist it must create claims on those that *do not as yet exist,* it must borrow.

To borrow means that it transfers claims from present to future goods. Those capitalists who buy its bonds have an option on future labor-products. Up to a certain point actual idle bank credits, etc., can be used, that is, claims on present goods can be transferred into claims on future goods. But now comes the rub.

There is not enough for taxation to get at and there are no longer enough reserves for the government to use. It then does something much more desperate. It creates money.

That is to say, it issues, say, four billions of bonds. There is no such free money in the world. It accepts the credit of the banks who receive the bonds from the government in exchange. This is an inflation since there has been no corresponding creation of capital to cover this transaction. The value of gold is now greater than the value of the currency, and so the money of the government buys less

gold, or is depreciated. The reason for this is that the time to produce the gold remains the same, whereas it required no time put into production at all to "create" that additional currency. Prices rise.

But even the banks will not lend this credit money if they do not expect that the government in the future will be able to repay them in real products, or pay the interest in real products. In the case of the defeated nations in the last war it was certain they could never do so. Their money became worthless, but still the capitalists were rich men, since they owned the capital of the country, however expressed in money terms.[6]

Summary of Recent Financial Changes

What happened can be summarized. The value of goods is constantly falling, since they take less time to produce. The rate of profit tends to fall over a given period, whatever its intermediate rises. The mass of profit has somewhat risen. The value of gold is falling slightly compared to the value of commodities. The amount of currency has increased with the increasing prices. The increasing prices have resulted not so much from a greater value in commodities, nor a lesser production of gold, but from an increase in the currency above the previous amount required to circulate commodities, and this increase was due to the increase of the demand for goods due to the War.

> NOTE: In this phantasmagoria a cool economic head is required. The credit mechanism has obscured production relations, but there is no need to deny that it has some life of its own. We must trace this life, to explain what has happened.
>
> Credit, said Marx, is half-swindler, half-prophet. Credit is the instrument of speculation, but there is scarcely a reformer

[6] In England, in 1914-1918, the ability to command national, colonial, Indian, foreign, capital in the future was not very much overrated, due to gigantic reserves. In France, the larger quantity of investments in ratio to current surplus-values led to too great a reliance on *loans*, instead of *taxes*, such as had much more largely sustained Britain in the War. The loss of Russian investments of France meant that part of these expectations could never be made good. In Germany all outside claims were wiped out by defeat. But in every country the *class* relation of capitalist and worker was unaffected; in every country monopoly tendencies continued.

living who does not look to it as the gateway to the Golden Age, from Upton Sinclair's *EPIC* to the Social Credit group in England. This peculiar position in bourgeois thought held by credit represents both a need of the middle classes to function as capitalists, and a vaguely correct perception that credit is a mechanism for increasing the power of those who *already control* the means of production. The first section is "swindler," the second "prophet."

Now Marx in Volume II of *Capital* studies money-capital as distinguished from *commodity capital* and *productive capital*. (This has not been elaborated so far, as this is a textbook and not an encyclopedia.)

One part of capital continually changing, continually reproduced, exists as commodity capital converted into money; another part as money converted into productive capital; and a third as productive capital converted into commodity capital again. Capital exists simultaneously in these three phases, but every part passes successively from one phase and functional form into the other and must perform a function in all of them. These special cycles are simultaneous and successive parts of the same rotation.

If constant capital is five times that of variable (or if fixed capital is five times that of circulating), then the variable must be turned over five times for the constant's one. Otherwise the disproportion in values would be unworkable.

The turnover is not a factor in production outside of labor. It is a way of describing a certain quantity of labor in time. A capitalist accumulates, largely because he must improve technique, that is, cut down units of value, to meet competition. The labor-time base is paramount.

The rate of interest is not altogether an abstract question concerned only with a rough congruence with the rate of profit. The weight of money looking for investment, of a large *rentier* class, helps to depress the rate of interest by increasing the supply of money.

This class of people are outside of production, but since no one can live by reason of ownership, but only out of current production, they must lend to live. *Interest is not an increment of money but a transfer of money.* The development of the credit system too, by channeling all monies into available

loan capital, itself increases the available supply of money and so reduces the rate of interest.

It is seen that Marx here does not concern himself with the almost meaningless generalization that the rate of interest must be above zero and below profit (a bromide of Marxist textbooks). He is aware of the great importance of studying the reasons for the exact rate, *in class terms,* in a given situation.

It is clear, then, that the change in the character of the middle class from that of independent capitalists hungry for loans to a dependent class anxious to lend, and the reduction of the borrowing capitalists by centralization, plus the intensification of their control by fusion with the very institutions that do the lending, are potent factors in reducing the rate of interest and increasing the capitalization of "values."

Both taxation and inflation, then, are specific class phenomena. In taxation, an attempt is made to get around the comparative inelasticity of the means of subsistence, as values, by a reduction of wages below value. In inflation, the increase in prices outstrips that of wages, so that for a time the wages of labor are reduced below value. Where, as in Germany, the capital was wiped out, so was the money, but the capitalist, unable to place his gains in money, put them into *fixed capital.* In France, a large *rentier* class resisted taxation, and so the form of inflation was utilized. In England the taxation was enormous, resulting in the class of new poor.

That is, those rich people not directly concerned with war production, or production at all, paid high taxes and could not recover; those concerned with production paid high taxes but could recover in the wartime price structure.

Hence the gigantic British debt has resulted in no net increase in a *rentier* class, but has been largely borne by the weakening middle classes, by the colonies (as in the transfer of gold from India), and, by devaluation and conversion, the burden of debt service has been cut down by 60 per cent, *in terms of commodities.* So that the gain from 1 to 5 in debt has really been from 1 to 2 in commodity terms; serious enough, but not enough to imperil the currency as a trading unit, as in France.

Questions for Budding Economists

This treatment of credit and debt (two great characteristics of the present era, accompanied by tremendous taxation) is very superficial. It points to the road the student must follow. It cannot take up the following fascinating questions:

To what extent is increased taxation and state expense a sign of strain in class relations, that is, to what extent is the cost of government an increasing insurance premium against disturbance of the present class organization in most countries?

To wbat extent is it a carrying cost of monopoly capitalism, transferred onto the derivative income of the middle classes?

What class interest made taxation the refuge in some countries and inflation in others?

Is the consistent depreciation of the French franc, for example, by billions in French holdings abroad (both state and private), a maneuver peculiar to the French bourgeoisie to make their own workers lose their savings while they fortify themselves by participating in surplus-value abroad? That would be a new extension of the pooling of surplus-value, of the average rate of profit.

What is the difference between an inflation of the currency and an inflation of security "values," as in 1923-1929? What is the class content?

Why was England's inflation stopped by foreign receipts, and yet Germany's difficulties unchanged by foreign borrowing? (This would illustrate the thesis that production relations are primary.)

Was the round of devaluations effective only because there was an upward industrial cycle, anyway?

If so, is inflation a permanent balance wheel for monopolies in cyclical crises?

Will quotas, etc., end the relation of external trade balances to currencies? Is the device of equalization funds to support currencies merely a masked form of trade maneuvers, as was formerly effected by ordinary purchases of bills of exchange?

Can a non-existent real currency like Germany's be sustained by a permanent shortage of consumers' goods, accompanied by non-reproducible armaments?

Why does capitalism resort to devaluations now and not before?

Why could capitalists formerly utilize write-downs as a mode of recovery whereas this is now intolerable? Is it the nominal burden of debt owed the middle classes? Is it the inelasticity of monopoly prices that is fortified, as a weapon, by devaluation? Formerly the capitalists let everything slide but the money. Now they let the money slide but not the prices. What altered class situation, in economic terms, accounts for this?

There is a postgraduate course in Marxism in answering these questions. The money theory of Marxism remains that part of the theory where the student (as also with the theory of accumulation) can hope to add significantly, for the foundations of the system have been expounded and criticized since 1867 with very little being added.[7]

NOTE: A few common reflections on currency should be noted for the Marxian treatment. It is often asked, if credit causes undue expansion of industry, why should it not be spread intelligently, that is, restricted when business is good, so as to restrain overexpansion, and extended when it is bad, so as to smooth slumps?

If credit is restricted, some industries would reduce buying. Now in credit restriction, as in all restriction, this would favor the capitalist who required the least credit. It would aid him to reduce prices, to cripple his competitor denied credit. These would have to reduce wages to compete. But that is exactly how a panic starts in any case. Unless some method can be invented to reduce production more than wages (however this is done) and the old contradiction is there again. Who will consent to favor labor at the expense of capital so as to smooth cycles? The capitalists?

All schemes for credit restriction are national. To be operative they should be international. Good. Then instead of *credit* going into the prorated older industries, money will flow into actual *investment* in industries that can absorb that investment. Well, then, you will prohibit new production? That is what trusts do anyway and look at the results.

Bank policy, of course, has an auxiliary effect, but only within the determined relations of production at the time when it acts.

[7] Except formally by Hilferding and in class terms by Lenin.

Certainly public works and subsidies have a temporary effect. They may be desirable for social reasons, that is, they brake the power of capitalists to reduce wages in other industries. But economically they can affect only the lag of booms and crises.

The social credit theorists say, Increase purchasing power. The costs of business are never covered by those who have the money to spend. True, but why? It must be remembered that purchasing power is always at its height before a crash.

Also the social dividend would result in a fall of wages to balance it; just as pensioners and younger daughters working for pin-money reduce wages because they can take their other income into account, so the receivers of any certificates, social-credit, Townsend, Ham-and-Eggs, and whatnot) would find wages cut down to approximate the means of subsistence funds in the hands of labor, however arrived at (that is, cut down by the amount of the certificates).

The mistake in these arguments is natural. They all argue correctly that if banks did certain things they would remedy certain effects of capitalism. So they could, if that were the completed cycle.

Unfortunately these abstract possibilities have to be realized within the mode of making profits. Hence they set up counter-tendencies within that system that nullify them. That is why, apart from the Marxian replies, the perfectly sound objections to "crank" theories by orthodox economists are not convincing. For they permit the contradictions of the profit economy, and ridicule all other contradictions. The honest radical senses this.

Perhaps the most important studies in the fiscal nature of capitalism are those of the French Marxians. They stress the importance of continuous state deficits, as a weapon for the large banks to keep the state dependent on them for short-term debts in order to ease its treasury position. This enables social legislation to be nullified by fiscal pressure.

In England, in 1931, the May Committee was used to this end: it used state deficits as an excuse to bring out a wages attack by reason of fiscal pressure on the treasury. In countries like Belgium, this relationship is undisguised.

SECTION III

The Attack on Marx's Economic Theory

33

Böhm-Bawerk and the Austrian School

Every proposition of Marx has been subject to severe and widespread criticism. The foundations, such as the theory of value and of surplus-value, have been attacked most often, but other sections have been reviewed, mostly unfavorably. The law of accumulation, the centralization of capital, the diminution of small enterprise, the theory of agricultural capital, of the increasing misery of the workers, the concept of rent, of interest, profits, wages, have all been assailed. Some of the attacks have been theoretical but many have utilized statistics.

Deepest of all are the criticisms of Marx's very foundations. His method has been assailed as metaphysical, as deductive, as wishful thinking, as sterile. He has been accused of vulgar Messianism, of teleology,[1] of nominalism [2] in philosophy.

His dialectical materialism and historical materialism have been challenged not only as to truth and scope, but above all as to whether they were needed for his doctrine. Many socialists have held that a critique of capitalism does not demand the elaborate theoretical structure of Marx.

On ethical grounds, too, he has been rebuked. Class hatred, hedonism [3] have been singled out by idealists. It is denied that the notions of capitalism and of class, his two historic counters, are definable. Those who believe that there is a capitalism, in his sense, accuse him of seeing it out of perspective; they assert that its present difficulties are those of youth, not, as they say he thought, of senile decay. In Germany and Austria and Russia the criticism has filled

[1] That is, the predetermined ends shape the means by which they are come by.

[2] The denial of independent general ideas.

[3] Belief only in pleasure, as the content of ethics.

library shelves, and generally on the European continent it has been extensive. In the vortex of Marxian discussion, for example, practically every intellectual in Italy at some time became involved.

No other economist has been the target of so many shafts. The man has not escaped, either. Anarchists remember him for his humiliation of their precursors, Proudhon and Bakunin. Utopians have declined to accept his system as transcending their three masters, Saint-Simon, Fourier, Owen. Marx has been denounced for querulousness, hair-splitting, tyranny, brutality to intellectual opponents. Some of his own followers baffled by the rejection of almost all his ideas by the learned world, have ended by asking for a revision of some aspects of his system.

Böhm-Bawerk

The most elaborate criticism has come, of course, from the academic chair. The lion of anti-Marxists, among professional economists, is E. V. Böhm-Bawerk, head of the "Austrian school" of economics. His first examination of Marx was a section of his masterpiece *Capital and Interest,* a historical and critical summary of all theories of interest. Marx and Rodbertus are considered to be the protagonists of the exploitation theory of interest.

For Böhm-Bawerk the theory of surplus-value is practically coincident with a theory of interest. He reviews the various explanations that have been given since the ancient world as to how money begets more money. He states categorically that among the dozens of theories advanced, about the lowest place must be assigned to that of Marx. There is an animus in this statement that is beneath the academic dignity and scholastic excellence of the man.[4]

Later Böhm-Bawerk returned to a more fundamental examination of Marx in his *Positive Theory of Capital,* in which he opposed an elaborate system of his own as the comprehensive explanation of all economic fundamentals. In 1896, in an aggressive study, he became the most articulate of those who saw the bankruptcy of Marxian thought in the theory of the average rate of profit as against the

[4] He later revised his estimate of Marx's capacity and granted him stupendous, though flawed, genius.

notion of surplus-value. His essay is summary; its title, *Karl Marx and the Close of His System.*

Böhm-Bawerk anticipated nearly all the attacks on Marxism from the viewpoint of those who hold political economy to center on a subjective theory of value. On the whole, little has been added to his case by other critics; their important contributions are outside of the theories he chose to contest.

The Methods of the Austrian School

A serious difficulty arises at this point. Böhm-Bawerk is a critic of Marx and the following sketch first marshals all his objections without comment. But a critical examination is not merely negative. Böhm-Bawerk has an alternative system of thought on which he bases his reasoning. If this book were to give his system in detail it would bulk far too large, for it would have to give *every* system other than the Marxian to explain the case of every school against Marx. A compromise has to be worked out. As much will be given of the positive views of these critics, only, as is necessary to give fullness and life to their rejoinder to Marx.

The so-called Austrian school is rather misnamed. The ideas which it carried to a high level were originated by many thinkers, such as Walras in Geneva, Jevons in England, Karl Menger in Austria, all about 1871 (and these in turn are derived from an obscure but profound German thinker, Gossen), and many of its ideas were adumbrated in France by Cournot and Dupuit, from 1838 on.[5]

This school was identified with a mathematical approach. It was impatient with the pure deductions of the classical school, whose abstract qualities it exaggerated. It regarded the historical school as deficient in guidance, since it formulated no certain conclusions. It rejected the pale and apologetic eclecticism and theory of "harmonies" which Marx so scornfully termed "vulgar economy."

Rejecting socialism, this school, impressed by the methods of the physical sciences, transferred their methods of measurement to economic phenomena. But it took its departure not from production or its relations but from demand.

[5] Hildebrand, Knies, and before them J. B. Say and Torrens held similar views.

For Marx the modes of production are decisive. Their working-out is expressed by way of social classes. The relations of these classes are the settings without which economic descriptions become false.

The Austrian school not only began with the demand for goods as the efficient cause of production, value, and price, but it centered on individual psychology. It took the atomic individual, studied his modes of preference for goods, his scale of valuations, the relations of a valuer to the scarcity or abundance of goods, and then proceeded to build up an economic society from the numerous individuals of which it is composed. This is analogous to the social method of Herbert Spencer, the dominant figure in the English sociology of his time.

Fundamental Disagreement with Marxians

For the Marxians, the method is fundamentally wrong. For them there are individuals in every society, but what individuals? Abstracted? No, they are the individuals of a society in which they are born. True, they are persons and differ from each other, but their modes of demand, their types of labor, their social manifestations, in short, are the products of the society whose life they must lead. They cannot, say the Marxians, even be identified or in any way understood, apart from this society.

The Austrian school not only reject this but retain the deductive method as an absolute besides. For them the question of value is not historical but categorical; that is, they seek to define in the same way that a dictionary does. They seek the least common denominator for every object, and when they have got that they call that the definition of the mass of objects to which it applies.

For the Marxians the question cannot be put that way. If a social situation shows that 99 per cent of goods in any given time can be understood in only one way, and that from this way of understanding there follows the most fruitful consequences, then this is the correct method to follow.

For them, commodities, products of social labor, are over 99 per cent of all economic units today. Millions of acts of exchange, conducted on a social basis, are affected with them. If 1 per cent

of goods are not commodities, that is, cannot be defined by the 99 per cent, it does not follow that the 99 per cent and the 1 per cent must be referred to some common constituent in order to understand them.

The 1 per cent represents a different social result: it may be a survival of individual or familial economy; it may be a mode of valuation of unique or monopolistic goods, that can itself be understood only by understanding the class origin of those who value the 1 per cent and that class origin must be found in their relations to the 99 per cent.

The Marxians reject the absolute, the Austrians embrace it. The Marxians say that "capitalism" is not a pure concept, but an overwhelmingly important picture of nearly all phenomena at a given point. It is no more perfect than "feudalism" ever was absolutely a reproduction of its theoretic model, without any vestigial or superseding factors, in any given decade.[6] Hence there are contradictions in the working out of any concepts, such as "value." These contradictions do not annul, but confirm the theory, when it is seen that the theory explains the general working, and by way of this identification accounts for the deviations.

The Austrians maintain that no concept must have an exception. For an exception points to a need for revision of the concept in favor of the more comprehensive concept that will embrace both. To the Marxians, the Austrians are mere scholastics, to the Austrians the Marxians evade the logical issue by a historic fire-escape. This is the background, then, subjective *vs.* objective, social *vs.* individual, consumption *vs.* production, historical evolution of mass *vs.* logical rigor.

Labor Theory of Value Denied

Böhm-Bawerk begins his examination by contesting the "labor theory of value." He points out that Marx has differed from his predecessors in seeking to prove rather than to take for granted, the notion that value is labor. That Marx does not really assume this (because of his distinction between labor and labor-power) is passed

[6] As Engels says, if there ever were a pure idea of "capitalism" it would mean that evolution had ceased.

over by Böhm-Bawerk, because of his method. He is classifying Marx as one of the labor school of value and for his purposes the Marxian distinction is not significant.

It is for Marx, however, because by way of it he escapes the vicious circle of the labor-theory of value. But for Böhm-Bawerk, if any labor theory whatever is false it does not matter how it escapes inner contradictions.

He then rebukes Marx for his method. He might have chosen two correct approaches. He might have asked to which motives in the exchangers the act of exchange is due, or he might have said, I will assemble a great collection of facts concerning every type of exchange and so I shall see how their diversities arose. But instead of these two correct paths, Marx took a third, the sterile method of dialectic logic.

Marx Underrated Utility

Marx, owing to the restrictions of this method, wrongfully neglected usefulness, or utility, in determining the exchange-value of goods. He pointed out that commodities have varying uses and so said they cannot have these uses in common, therefore we must seek what they have in common and that is labor. True, you cannot exchange a particular use for a particular use and equate these two differing qualities. But their general usefulness is there. One can speak of their utility in the abstract and it is just as legitimate as to say that you can speak only of the labor embodied in them in the abstract.

Is not general utility, the capacity for being of use to somebody, apart from any given use, as much a universal constituent of commodities as labor? But Marx has said that utilities are incommensurable. Why? Cannot these utilities all be commonly referred to their abstract quality of satisfying human needs, and cannot these be measured by studying the point at which the satisfaction with one is complete and another substituted, for example? Marx has willfully or capriciously chosen labor because he has refused to exhaust the other possibilities of a common denominator. The reason for this is not in his economic reasoning but in his desire that economics serve a preconceived political bias, that of socialism.

General Utility Comparable

Labor can be measured though, says Marx, by its quantity, and that quantity is the amount of labor-time socially necessary to reproduce a commodity. Can utilities also be given a quantity, or embody a quantity? For Böhm-Bawerk does not contest that if particular use-values are merely qualities of specific objects, that any common property they have in exchange must be measurable as a quantity, otherwise there is no basis for an exchange.

Böhm-Bawerk certainly believed that utility is as measurable as is labor-time. You can have quantities of demand embodied in any goods, and these quantities of demand are based on a margin, that is, a point from which calculations of needs, their satisfactions and their substitutions, can proceed. Certainly if there is an equal rarity of ice-cream soda and ginger ale, they will have the common denominator of being equally present to satisfy demand, and if that demand exists for both of them they are in balance because they are equally rare.

Why can not this psychological relation of the buyer to goods be a common, measurable quantity like labor-time? A great deal turns on this question. If Böhm-Bawerk is right in this matter he can go forward, although that of itself would not prove his case. But if he is wrong on this matter then his criticism is over, he is stopped. This will be reviewed when the present exposition is completed.

Marx Limited His Scope Artificially

Böhm-Bawerk now objects that Marx limited his investigation of value to such goods as met the needs of his definition, and no others. He did not include all goods but only commodities, that is, objects made by labor. But by doing so he shirked the very question to be decided. For if there is something that goods and commodities bave in common, why should not a conscientious thinker begin with this common attribute, and from that point on explore differences?

Of course Marx finds labor-time the only common quantity of commodities. It is like saying that by an army, I mean the Union Army, and as all their uniforms have the property of being blue,

the idea *uniform* is referable to the idea *blue*. But why do you exclude the Confederate Army? For once you include their gray uniforms then you must admit that the common quality of uniforms is not in their being blue but in all having one color and brass buttons attached.

Now other things exist than commodities. You admit this by excluding objects having a price such as land, honor, chastity. In order to refer common exchangeability back to labor and to that only you calmly tell us that these prices are not reflections of value, but, so to speak, take on the price aspect of value, in the way that an actor takes over a king's robes. They seem to be values because they have a price, but they have no value. But why not begin with all things that have a price? That is the stamp of exchange. Your labor theory would not survive that test.

Natural Goods

Look too at the immense prices paid for goods that are not produced by labor. First there are the natural things, land, water-power, all these foundations of all wealth, including forests and mines. If a meteor falls from the heavens and has gold in it, there is not a tithe of labor there, but it commands a price. If a silver mine or oil well is found on a property, the lucky owner never lifted a finger, but he is rich.

Catalogue of Exceptions to Marxian Value

Apart from nature, look at man. Never before or since has there been such a combination of lungs, larynx, and palate as Enrico Caruso possessed. Was the $5,000 a night paid him by the Metropolitan Opera measured by the social labor-time required to reproduce it? Or the genius of Rembrandt?

How about rare books that gain in value as their copies become fewer? Or immense gains in value of stamps as their collecting becomes fashionable? Do you deny that if a million people collect them they are not worth more than if ten do? Yet no labor in them has altered.

Some attempt might be made to explain away these common events, but there are deeper objections. Take first and second bal-

cony seats. One is $1.65, the other $1.10. Was there a 55-cent difference in the labor required to produce them, where they are of the same quality?

But, even within your labor-production, here is a steer. Its loins weigh 100 pounds and sell for 40 cents a pound. Here is its sweetbread, that weighs 5 pounds and sells for $1.25 a pound. The cowboy put equal labor into every part of that steer, but look at the values!

Böhm-Bawerk points out that Marx himself is aware of the participation of nature and labor in the making of commodities. Marx cites with approval the epigram of Sir William Petty that for goods the earth is the mother and labor the father. Why, then, admitting that labor is not the sole author of wealth, that labor-power itself is but a natural force that goes along with natural raw materials, does Marx then cling to the notion that only labor-time is the stuff of value?

Scarcity Is the Common Attribute

After this query he resumes the question of what quantities goods have in common, so as to amplify it. Goods have one common property: they are scarce. By scarce, Böhm-Bawerk means they are limited in supply. For example, air has no exchange-value because it is unlimited in supply. We always find, then, that wherever there is exchange-value objects have to have the common attribute of scarcity. This scarcity can be measured because we can count the number of objects that constitutes a supply. Here is a really universal characteristic of all goods, a positive characteristic apart from all negative questions addressed by Marxians. Do not all goods have this in common—that they are objects of demand and supply? Were they not, how could exchange exist? Now, to more basic qualities.

List of Other Common Attributes

All goods have a certain amount of natural products in them. That is a universal attribute. All goods belong to somebody. If they did not we would have no exchange or value even to consider; we would consume in common. There are, therefore, at least a

half-dozen attributes that goods have in common, all positive. To have picked only on labor-time was really remarkably restricted thinking when all these possibilities were present.

Marxist Theory Is Not Verifiable

But, in addition to mere identification, political economy has the right to ask of any concept that it be verifiable, that it come through legitimate tests. Marx's theory of value does not even enable anyone to predict the approximate price at which a commodity will sell! If the value of a commodity is not basically the index of its price, its economic importance, in the analysis of the real movements of goods, is near to zero.

Böhm-Bawerk proceeds from shortcomings and fallacies to attack Marx's idea now as being absolutely contrary to economic fact.

Labor and Exchange Value Are Wholly Unrelated

Experience shows that the exchange-value of goods and the labor embodied in them are related to each other only in some instances, and even when so related this correspondence is incidental and is not due to that quantity of labor determining that exchange value.

If labor is the element determining exchange-value, take the instance of a bushel of wheat exchanging for a cord of wood. What difference does it make to the exchange relation whether that wood came from a cultivated forest which required the labor of a forester to extract, or from a wild tree-preserve? In one case the wood represents a labor-quantity that it has not in the other. But the exchange is effected on the same basis.

Skilled Labor a Marxian Evasion

Another thing, says Böhm-Bawerk: Marx himself has really abandoned labor-time as his explanation of value. He says that skilled labor counts as a multiple of simple labor. This is a trick of words, a mental acrobatics to avoid the collapse of his theory that labor-time by itself is the social content of value. If the day's labor of one skilled man equates a week's work of another, then, despite all devices, there is no truth in the idea that the value of a commodity is determined by labor-time alone. It does take the skilled

worker a seventh of the time, and yet it is as valuable. You can "equate" anything by Marx's method.

Centripetal Motion of Prices from Value Is Basic

Böhm-Bawerk's next objection is by way of a caution. Marxians assert that prices oscillate about a level of value but are almost never exactly at that value. But if prices constantly oscillate then there is a force apart from value (Marxian value, that is) that puts them above and below that level. That force is primary, for it is always exhibited in the variations of price, whereas the labor-time of Marx is practically never revealed. Prices are determined by something fundamental apart from labor.

Surplus-Value Contested

From value Böhm-Bawerk goes on to surplus-value. In Paris there is a pearl dealer, one whose clients are millionaires. He buys pearls for a million francs, buys them wisely, for he is a connoisseur. He hires five girls to string them, and pays them 500 francs a week. He sells these pearls in a month for 1,200,000 francs. The labor of the girls took 8 hours each a day, or, say, 1,000 hours together in a month their wages being 12,500 francs, or a sixteenth of the profits. Can it be seriously maintained that the work of these girls was the cause of the difference in values and that they worked only thirty minutes a day for themselves and seven hours and thirty minutes for the employer? Is it not rather true that his profits bear no proportion to the unskilled work they do but are entirely dependent on his deep knowledge of value, his merchant's understanding? Now why, if exploitation is not true here, should it be true generally? The employer risks capital, has ability, has an unusual gift for anticipating demand and for satisfying it. Is the equation of labor-time the only one? And if not, what becomes of the Marxian structure of surplus-value?

In the foregoing sketch we have mingled some of Böhm-Bawerk's objections with those of his school that in effect repeated his view. In the next series of objections they all repeat each other almost verbatim except for Lexis and Sombart.[7]

[7] See Bibliography.

The Great Contradiction Insuperable

These objections concern the "great contradiction." At the end of the Marxian sleight-of-hand, they say, what does Marx produce? The same old cost-of-production theory, the one that all bourgeois economists have held for two centuries. Profit is the surplus above cost. Where does this fit the theory that profit reflects surplus-value, and that, in turn, is determined by labor-time? If the upshot of Marx was this absolutely ordinary theory of profit, the baggage of value and surplus-value is, at the least, superfluous and, at best, is really annihilated.

If profits are not the same as surplus-value, then the exploitation theory does not account for the rate of interest either, or for interest itself, for that matter. That was why Böhm-Bawerk called his book, in German, *The Wind-Up of Marxism*. He sums up, "the equal average rate of profit can only manifest itself because the alleged law of value does not hold good."

Slonimski,[8] a disciple, further says: "Marx . . . admits . . . that surplus-value in the form of profits is yielded by every productive capital even though . . . no wage-laborers are employed thereby. The average rate of profits is conditioned neither by the number of workmen, nor upon the degree of their exploitation, nor is it influenced by either." That is, surplus-value is completely exploded as a theory.

Agio Theory of Böhm-Bawerk

Böhm-Bawerk has a positive theory of profit which he opposes to Marx. That theory is that present goods, as a general rule, are worth more than future goods of the same type and number. It is the exchange of present goods for future goods that results in profits. There is no exploitation of labor involved.

Present goods are overestimated by most buyers, and future goods underestimated. Present goods have a technical superiority over future goods. Present productive goods yield a higher mass of products than future productive goods. The difference of longer and shorter duration of production is the basic economic differential.

[8] See Bibliography.

His theory is elaborated by a study of the roundabout process of production, which takes time. The longer the processes before a commodity is ultimately produced, the more time is taken and the greater is the superiority of present goods.

To maintain the workers while he is awaiting his future receipts the capitalist advances them a subsistence fund. This is the celebrated *agio* theory of Böhm-Bawerk. It incorporates memories of the older abstinence theory and the wages-fund theory as well as his own.

Marxian Value Theory Conceptual

Apart from Böhm-Bawerk and his school, an interesting conceit is that of Sombart, that the theory of value of Marx is not in contradiction with the concept of an average rate of profit because the Marxian theory of value is not to be thought of except as a mental framework, unrelated to reality, whereas the theory of profits is a description of reality. This criticism has already been noted in the original explanation of value.

Concordance of Marx and Böhm-Bawerk by Tugan-Baranowski

The most interesting attempt to harmonize marginal utility and the labor theory of value is that of the Russian economist Tugan-Baranowski. He states that according to the marginal utility school the value of goods is determined by the amount of units of the commodity in question already possessed by the buyer. The more his demand has been saturated the less the marginal value to him. Good. Then what determines the quantity of goods?

Tugan-Baranowski says these depend on the economic scheme as an entirety and in that the factor of labor-value is the most important. Since marginal utility depends on the ratio of objects to the subjective valuer and since labor-value is outside of our will, labor-value is the determining element, while marginal utility is the element to be determined. ". . . Marginal utility is a function of labor-value." Since the utility of goods is relative to the utility of their last units, freely reproducible, this must be in inverse ratio to goods reproducible in a unit of time—that is, in direct proportion to the labor-value of these goods.

Tugan-Baranowski thus unites Marx and Böhm-Bawerk. But if labor-value is the determining factor it is the economic factor, while demand, etc., are merely its psychological *expressions*. Tugan-Baranowski gets out of this decision by saying no, Marx's theory of labor costs was confused by him with the labor theory of value; now value is marginal utility but is determined in quantity by the cost of labor in each unit.

In this way Tugan-Baranowski believes he has got over the difficulties of relating labor-value to price, and at the same time has avoided the inevitable question that Marxians must ask Böhm-Bawerk: Is the labor embodied in the great mass of products, that takes hours a day in fabrication, really altogether unrelated to value? His is the only synthetic, or rather eclectic, attempt that has been made.

Relative-Value Critics

On the theory of value little more has been done. But on the vexed question of the relation of value to profits the controversy has been more lively and varied. Prior to the appearance of the third volume of *Capital,* Engels proposed the following question on which the political economists were to try their skill:

> "In what way can an equal average rate of profit come about not only without a violation of the law of value but by means of it?"

Several leading scholars attempted the reply. Three of them, although not arriving at the solution given by Marx, came reasonably close to it. But one critic, Loria, impeached the Marxian method when it was published. He stated that "value is . . . the exchange relation between one commodity and another. A total value of commodities is . . . nonsense."

Value is thus made identical with price, and every commodity's values are as multiple as the prices it has from day to day. This criticism of Marx is that of the whole school of relative-value theorists, who hold that value cannot be a quantity either of labor or of demand, but a mere proportion between goods.

Marxian Surrejoinder

The Marxist surrejoinder to critics is found mainly in the work of the American, L. B. Boudin, *The Theoretical System of Karl Marx.*[9] Althougb written in 1905 it stands up surprisingly under the wear of three decades as have few books wbose subject matter, apart from theory, must involve topical reviews as well. Its limpidity and clarity of style alone would make it noteworthy. His treatment is followed here, except for such subsequent modifications as are imposed by the changed situation since the War and the critical work of the Marxist groups, especially on the continent of Europe.[10]

Use-Value Substratum of Value

Boudin agrees that use-value is subjective with reference to each purchaser. This meets the objection of Liefmann that so far as purchasers are concerned, in their psyche, the quantity of labor is never considered. Naturally each commodity is acquired for its specific use, or rather those qualities that are thought to be uses. But this does not concern political economy (though it is an attractive field for social psychology). These natural attributes of commodities were there before capitalism. They relate to goods but not to commodities.

Use-value is the substratum of value. It preceded value, which is a historic category. But value is an objective attribute brought about by the social relation of individuals, which individuals themselves are socially determined.

"Capital, which is an aggregation of exchange-values, is nothing more than a social relation of individuals." The proof: Wealth of any individual rises and falls without reference to whether his material goods are more or less. This is unique to capitalism. If uses were the only subject of economics, what would explain this mystery? The more useful articles are produced the less value in each; that is, the greater the quantity of uses, the smaller its relative increase in value. Value must therefore be independent of use-value.

[9] Charles H. Kerr & Co. (Chicago, 1907).
[10] And my own glosses. [*Author.*]

Use implies production for us. But even the most conservative must acknowledge that there are many people who are rich and yet produce nothing. They do not take wealth by force and nobody loves them so much as to give it to them. They get it because the social relations are not conditioned on use but on something else. Their resources would be unthinkable otherwise.

This does not come about by exchanging uses. Honest men sell goods for what they are worth. As a class they make more money than those that merely produce. Why? As a class they cancel out each other in trades but they get rich notwithstanding. Then use, or utility, such as Böhm-Bawerk cherishes, can afford no reply. Since a change of hands creates no new uses (we are speaking of a mere exchange, not of transport or stockingup), money profits must be explained in the sphere of production relations, by a definite social-legal mechanism.

Natural Limitations Theory Not Economic

More than that, the limits of capitalist production are not those of nature, in the old agricultural sense. Its limits are given by the "market." The poverty or wealth of mankind is no longer a natural condition, it is a result of the ebb and flow of social relationships. Here too the objective social situation is everything; use is merely a basis for all production but explains nothing of its limits, its growth or decline.

Value Basic to Price

A great many of the Austrian objections play on the discrepancy between value and price. The meaning of "cheap" and "dear" is that of purchases above or below value. Value is a social relation. Price is an individual act of exchange, centering about the social relation. That is to say, the social value of a commodity must be in it or there is nothing on which to base the *variation of price*. But the totality of prices paid and the totality of values must bear a closer relationship than in any *given* trade.

Meaning of Necessary Labor

Another Austrian defect in analysis is their misapprehension of the word "necessary" labor. They confuse "socially necessary" labor

with "average" labor. Labor can be wasted, that is, proved socially unnecessary. Here too the wasted quantity of value is expressed socially. And socially average labor-time expended in a commodity may be excessive compared to the time in which it can be produced by the time it enters the market. Both these aspects can be summarized:

> The value of any commodity is determined by the quantity of labor that society will of necessity expend for its production when that society requires that expenditure, that is to say, the social quantity of labor needful for its reproduction.

The notion of *reproduction* takes care of all changes in the time of production of commodities. By transferring the definition of value from production to reproduction, the Marxist definition is made clearer, since that takes care of its social use when its production is done. Social use, here, is not "Austrian" use; it implies that it is because of social relations that articles may have been produced and yet wasted. They may be useful as ever but, for example, unemployment may close their market.

Marx Does Not Have an Exploitation Theory

So much as a foundation. Now to the specific objections. In the first place Marx does not hold an exploitation theory of profit in the sense in which Böhm-Bawerk uses it. The capitalist pays the laborer his full value. He exploits him, in the true sense of the word, not in the sense of robbery. The laborer works so many hours for his value, the value of his laboring-power. But he has sold it for so many more hours. There is a surplus-value, which is the only reason the capitalist bought the value to begin with. Böhm-Bawerk's phraseology is wrong.

Constants and Variables in Valuation

As to his assertion that Marx ignored the psychology of exchangers: granted. Psychological valuation is unchanged by history. It is a constant. Man has valued goods subjectively in any society. The phenomenon of value in our society has to be explained by its own special properties. And that shows that use will

does play a part in the story of value but not in value itself as an economic quantity, as an object of analysis, or as the motor of all economic activity.

The Purpose of Marxian Selection

It is asserted that Marx selected only those objects for valuation that suit his purpose. But Marx does not exclude any "goods" from his study. He includes them all, but he analyzes them as having separate social properties. Land, for example, has no value even though it has a price. How is this proved?

Marx does not say that labor is the only source of wealth. Nature is an equal source. So that natural and labor objects are all provided for in Marx's ideas. Why then their separation for value?

Because Marx asks, Which objects attain an exchange-value by reason of the capitalist system of production? They cannot be natural objects antecedent to that system. They must be objects socially produced in that system.

The others existed before man was on the earth. Nor, until you had a commodity society, did any object have any exchange-value, even under a fairly high productivity. Now it is the *objects fashioned by social labor for a profit* that are the specific goods of the capitalist system. Their laws are the basis of all exchanges, since it is obvious that all objects, apart from the natural substances in them, are products of labor, and their differential in value is that of the social labor-time required to produce them.

Only land is outside of this, and its price is known only by its annual command of objects fashioned by labor. But the whole system begins and ends with objects that require necessary social labor-time to reproduce.

Böhm-Bawerk's Common Properties Irrelevant

Now as to Böhm-Bawerk's statement that goods have other common properties than labor, say appropriation (but that is not in goods, that is a relation of men with respect to them), or supply and demand or scarcity: scarcity and supply and demand are obviously the same thing, one is the other.

Supply and demand assumes a certain scarcity of supply for the

demand to be relevant. No commodity contains within itself the amount of its supply on the market. Suppose supply and demand balance? Is there no value to anything? There is a price, where is the value?

Certainly value is ascertained relatively, that is, by exchanging one commodity against another. That is what Marx means when he says that value is manifested only by exchange, one element of which is the *relative* form of value.

Suppose, though, that two goods are produced twice as fast as formerly. They are in the same relationship to each other. They balance at zero. But their values are obviously less. Why? Because they will command less of any other article on the market. There must be something in them that makes their relative value—that is, of these two commodities—the same, no matter how much their supply is increased or decreased, provided they go together. That must be what they have in common outside supply and demand. It is the confusion of the alterations of price about a value and value itself. Value is the regulative principle at the basis of *prices.*

Böhm-Bawerk's Exceptions Ridiculed

Labor rarely resembles the exchange value of goods in which it is embodied, says Böhm-Bawerk. Most of his exceptions are drawn from nature or from golden meteors, etc. His talent for escaping from the billions of commodities exchanged daily and the making of which employs the small percentage of 99.99 per cent of producers, is simply astonishing. He thinks only in operas, pearls, golden meteors, sweetbreads, fine wines.

In the first place, let us take the golden meteor. It has value because it equates the social labor required for its reproduction as earth-mined gold. If golden meteors were showered all day long no one would mine gold, any more than they manufacture air (although in New York landlords charge for it, as the difference between flats at the bottom and top of an airshaft shows). But so long as it has any *exchange value* it is because it is measured against gold produced socially, that is, a commodity that has *value.*

Now as to forests, mines, etc., and also fine wines. These are

monopolies. True they are in demand in certain societies and highly prized. When the Spaniards arrived in Peru the natives were astonished that the object of all the sufferings these lunatics had gone through was to obtain gold. They showered these trinkets on those who, to them, were maniacs. Does this prove Böhm-Bawerk's thesis?

Monopoly and Land

But it is the labor utilized on the least esteemed wine that sets the value on the good wine. The differential above that is expressed as differential rent, that is, a part of surplus-value. But to have surplus-value one must have basic value, and that value is the labor-time bestowed on the least esteemed wine.

As to land, that has no value, for you can get millions of acres of it without paying a cent. Of the area of this earth, some 52 million square miles, over 30 millions are worth nothing and another 10 millions practically nothing. Land has a price (the capitalized rental) only after labor has worked it or surrounded it by the objects produced by labor.

But a plainer question than all these refinements is this: Where can you get a single article produced by labor without giving an equivalent? They make up the universe of exchange, and only fantastic folks even think of follies like meteors stuffed with gold, although even these are referable to labor. Serious men concentrate on the historic form of production from which we all derive a living.

Works of Art

Now come the works of art, like exceptional paintings, etc. Here we deal with articles not created by social labor-time. These are products of a human faculty higher than ordinary or even than skilled labor. They command a price but they have no value. There is no common basis of any kind for comparing the vision of Goya with that of Daumier, the fantasies of Van Gogh with the draughtsmanship of Ingres. The symphonies of Beethoven have no common economic measure with the *lieder* of Hugo Wolf.

To have value you must have some criterion of comparability and the only criterion here is the temporary whims of millionaires. To-

day they exalt Raphael, tomorrow Greco. Durand-Ruel,[11] who popularized the market for Grecos, made thousands per cent when they became fads.

The sponsor of Cézannes, Ambroise Vollard, nursed them, as almost valueless, until the rich people were told that Cézanne was the supreme genius of our time.

These fluctuations of price have nothing to do with value in the way in which thousands of chromo pictures are compared in the market at Woolworth's daily for five cents. So soon as prints [12] can be multiplied by the million, so soon as thousands of commercial artists, lithographers, etc., are hired by the week, their products are comparable ~~and are valued in the same way~~ as any others.

Whatever is socially produced has value. Whatever is not may have a price but has no value. Whatever is produced socially and not appropriated individually has no value. That is the sum and substance of Marxist identifications.

Is Skilled Labor Theory a Juggle?

But, it may be objected, how about ordinary skilled labor? This is a jugglery if you say it is compounded labor-time. But the business world never acts on any other assumption. This criticism is based on a misreading of Marx. Marx says that skilled labor is *equated to* so much simple labor, that is, a commodity made by a skilled watchmaker is equated to a commodity made by a simple mechanic on the basis of the latter and as a multiple thereof.

Skilled labor appears traditional, as the dignity of arts and crafts, etc., but actually reduction to labor-time is the valuing process that goes on in commerce.

Now skilled labor results either from a long and intensive training, the time of which is entered into calculating production time, or it may be outside of that personal training, that is, a use of better instruments.

[11] Famous Paris art dealer. He was to "society" what Ambroise Vollard was to those seeking to "anticipate."

[12] The mass-production collotypes and even the more individual reproductions like those of Jacques Villon sell on a labor-time basis. That is how Cézanne and Gauguin entered into daily civilized life. Recent social groupings of artists in W.P.A., paid by time, is significant as well.

The value of the products of this skilled labor is computed by the quantity of average labor required to produce it, for society is sure to have at its command the whole average of labor, whereas skilled labor is not so certain a supply.

When skilled labor becomes the average, through better machinery and training, then this distinction ceases.

Thus it is not the individual time required for the production of commodities that Marx implies, it is the social time necessary for reproduction, and that social time includes all labor, skilled and unskilled. Skilled labor can count only as the multiple of that average. Böhm-Bawerk confounds specific production with total production.

True, one commodity sells for more than another, but their value is still referable to the average time, not to the specific product manufactured. Things are worth so many times average or so much less. A basis is different from its consequences, still it is the basis.

The Alleged Great Contradiction

The ground is prepared for the Marxist reply to the bitter criticism of the contradiction between the law of the average rate of profit (and its offspring, the tendency of that to fall though the mass of profits may rise), and the law of value. Marx's critics grant that the products of industries with a high organic composition of capital (excess of constant capital) command higher prices than those with a lower organic composition. Now Marx says that the additional values produced by the first group are really created in the second and transferred to the first by competition, and so the average is attained. Here is the scheme of the alleged contradiction:

Marx's Value Thesis	Marx's Profit Thesis
Value = labor-time necessary for reproduction of a commodity, prices oscillate about this value. Profits come from surplus-value created by the workers hired by any given capitalist.[18]	Prices center about a level different from value, as given by labor required for reproduction. Profits do not depend upon the surplus-value realized in any given factory.
Costs of Production are irrelevant to value, price and profit.	Costs of production are related to price and profit.

[18] This is assumed by the critics.

Marx Not Related to Cost Theories

Marx's theory was based on the price of production. What has that to do with the cost of production? The cost theory holds that the value of a commodity is the cost of its production plus the average rate of profit on the capital invested to assure that production. The price of production adds up the *values* that enter into production plus the average rate of profit on the capital invested.

The Marxian costs are determined by values made up of labor, whereas the bourgeois theories are not so grounded. The cost theorists say the value of a commodity is determined by cost of production and cost of production in turn is determined by the value of commodities that enter into that cost, and so on to infinity in a circle. Now Marx never said that the profit of each capitalist is based on the surplus-value turned out only by his own workmen as the first table shows.

The Object of Marx

Marx is answering the question, How does profit arise? Out of surplus-value. But how is that surplus-value realized as a profit? That is a further question, for it deals with the social emergence of profit out of the social process of surplus-value. The profits have been traced to the sphere of production. Each capitalist seeks the maximum of that surplus-value. That is the meaning of "competition." But we know that although profits are made in production they are realized in circulation.

Surplus-value is divided in the process of circulation into interest and merchant's profit and in a different manner into rent, and even *pace,* into the premium paid for orchestra seats over second-balcony seats and for sweetbreads over loins.

But this division of surplus-values is not construed even by Marx's critics as a contradiction. Thus goods can be sold at their value, although the capitalists who realize the surplus-value in production part with some of it in circulation. *If capitalists can make a profit, though they do not realize the full surplus-value, and still they do not contradict the law of value, then why do they do so with an equalization of the rate of profit in the sphere of circulation?*

In the first parts of his theory Marx confined himself to studying the formation of prices at about value, whereas in the third volume he explained the *mechanism,* foreshadowed in his theory, whereby prices emerge as above or below value. Such a price may always be above value for a commodity that requires it so as to equalize profit.

The price of production, thus, is governed by the law of value even if that price is never the same as its value. But its excess above or deficit below is regulated strictly by the averaging of the rates of profit about that value. And that value is social labor-time. The formation of these prices and their *movement* must be governed by the law of value. To deviate is not to annul, to deviate is to be governed in an orbit.

It is no answer to the theory that all planets are governed by the gravitational attraction of the sun and that that is what holds them throughout their orbits around it, that only at the rarest times are they at the *nearest distance* brought about by that gravitation. The law of value forms prices not by arithmetical equality but by determining their economic motion all the time, whatever their fluctuations.

Böhm-Bawerk's More Critical Assaults [14]

We are not done with Böhm-Bawerk. For the more one probes into his objections to Marx the more one sees a foreshadowing of nearly every detail of future individualistic criticism. In his last attack in 1896, he summed up the logical fallacies of Marx himself as against his objections to the "exploitation" theory in which he obtusely had linked Rodbertus to Marx.

Marx's Social Theory Evades the Problem of Exchange

If surplus-value is to be conceived of as the total dividend of the capitalist class, those may share it, of course, who have little or no unpaid labor. The total *obliterates* individual cases, but it does not explain their *persistent differences* and, furthermore, this total has been reached, not by way of these individually different capitalists, nor through them, but only by a logical superimposition that makes

[14] This section on Böhm-Bawerk is intended for advanced scholars.

them parts of a total to begin with by ignoring their diversities that would have revealed to Marx that you cannot add permanently differing quantities and reach a significant total.

The Misuse of Averages

For Marx labor value is the average to which fluctuations tend. But they cannot do this, for in that case there would be a tendency to inequality and not to equality. This is, of course, due to a false use of the word *average*.

Marx Contradicted on Labor-time by Other Factors

With Marx, as time of production falls so prices fall, *other things being equal*. That is just the catch. But if labor-time is the only cause of value then the other things do not count, and if they do (and how often can other things be equal?), then labor is not the sole cause and these other things are themselves factors in the constitution of value.

Marxian History of Value Contested

As to the hypothesis that goods exchanged at value before large capitalism (by reason of constant capital) changed values into prices of production, there seems to be no evidence that there ever was a time when capitalism fastened first on industries that required very much variable capital (wages) and so little constant capital (machines). Rather capital, as opposed to the artisans, would first have entered such activities as mining, precisely where much machinery was required.

No Social Total Is a Guide to Its Own Division

Marx's law of value determines prices indirectly by determining the total amount of value, including wages and surplus-value. Let us grant this method. But how can such a total, more than any other total, then, determine its own partition? If you say, let us take wages as fixed and surplus-value as the variable, you are making a mere assumption.

The Four Supreme Refutations of Marx

Böhm-Bawerk sums up Marx. In *Capital* (III, 153) Marx makes the crucial statement that surplus-value can originate from laborers a capitalist does not employ. Why did he begin otherwise? Because in Volume I he assumed that goods exchanged at their values. But in Volume III (155-8 and 175-6) he now assumes that commodities sell above or below values, and that to reconcile prices and values (which one must in the long run or the equivalent manifestation of exchange is nonsignificant), he now assumes that prices of production equal the sum of values. The law of value governs the movement of prices through changes of the requisite working time, and this is what makes the prices of production, as a whole, to rise and fall with sum values (III, 156-8). The law of values then is a hypothesis that governs only in such stages in which prices of production have not superseded them. Value, from being a picture of exchange, is changed in function to a regulator of exchanges, in the last instance only.

This is a good recapitulation and is the precise theory which Böhm-Bawerk, in his more mature criticism, sets out to demolish.

First objection: Exchange relations between differing commodities cannot be summed up without making their internal relations disappear. Suppose you say that one is more than the other and compensates it. Well, of course they do. That is a tautology. If two things are added they are two things.

But note: one pound of gold sells for forty thousand pounds of iron. You can add both, and say we have 40,001 pounds of commodities, and by the same reasoning we ignore their total weights which compensate each other when added, one being more and the other less.

Their sum total of weight is 40,001 pounds and their internal differences do not concern me socially. Therefore *weight,* or rather *total weight* is the cause of exchange. That is just as good as *value* that ignores *permanently differing* quantities of value.

Second objection: Marx says the general law is the average of fluctuations. Marx confuses an average of fluctuations (which is legitimate) with an average between permanently differing quantities. In the prices of production in his theory, what do you have?

Not fluctuations about a certain level but everlastingly different levels themselves, depending on varying organic proportions of the capitals that produced the commodities that have these prices of production.

Here are two commodities, A and B. They are produced by differing organic composition capitals. The one with little constant capital costs $10 and the one with high organic composition $20, allowing for fluctuations about each level.

Marx can say, if he wishes to, that the average of the two is $15, but by so doing he has conjured away all economic meaning. Certainly a fly that lives 12 hours and an elephant that lives 200 years have an *average* life of 100 years and 6 hours, and you can say that the life of *beings* thus averages 100 years and 6 hours. But for the naturalist concerned with factors of longevity what earthly use would this sterile mystification serve?

And to say that the deviations of these two permanently differing spans of life cancel each other out in a total—well, yes, that is true. But what could a naturalist do with it? No more than a Marxian can do with the $10 commodity and the $20 commodity that will not leave those levels within the economic experience we are considering.

Third objection: Marx says that his original value theory governed in the more primitive stages of exchange but now is converted into prices of production. What a transformation! First we are told that the value theory of Marx is significant *only* for capitalism, for the accumulation of an immense number of commodities produced socially, and now we are told that this "esteemed" and "localized" historical concept does not govern at all in the only society for which it is defined.

But if the extremely high profits of early capitalism came from living labor (for then only would value approximate labor-time, due to comparative absence of constant capital), then the rate of profits has been falling from this great level, with the fall in the tendential rate due to the substitution of constant capital in the race for relative surplus-value.

Why did the rich ever leave exploiting this great mass of workers if the rate of profit was thereby reduced?

Another thing: if there was surplus-value at the beginning, this means that capitalists got independent workers, with their own tools (before there was large constant capital), and yet managed to get them to work for them and give up most of their working time to the employers. Is this economically conceivable?

A man works for himself, he has the tools of production, the class relations of capitalism have no foundation, and yet he gives away part of his working day! No, Marx's last hypothesis is contrary to history.

More than that, the inequality of profits does not arise from variations in organic composition but from some as yet not wholly explored reason, connected with the mere act of competition.

Fourth objection: Let us examine the regulation "in the last instance" of prices of production by value. If exchange relations are determined by the quantity of labor, then rates of wages, of course, have no influence on the rise or fall of values. Then only the amount of labor must be in harmony with the total law of value. But note: In the second constituent of Marx (of the prices of production, that is), of average profits, a determinant alien to the law of value becomes a determinant of the prices of production!

The law of value determines aggregate surplus-value. The average rate of profit is the total profit divided by the capitals employed in the production of any commodity. This gives us the concrete average profit, and this in turn is a factor in price of production.

But Marx has said of value that it does not determine the value of separate commodities but the aggregate value of all commodities. *But aggregates do not exchange,* so that there is no law of value for commodities at all! But this is far from the worst contradiction.

Further mistakes: Surplus-value is stated as a difference between aggregate wages and aggregate value. But necessary means of subsistence of labor are themselves sold at *prices of production,* and that differs from necessary working time.

Here is a worker; he takes so many hours to reproduce his labor-power. And at what prices does he sell it? For the cost in labor-time of those means of subsistence. That is what Marx told us in

Volume I. And now we learn that these means of subsistence embody not working time but the average rate of profit as well. Variable capital thus also deviates from its value. Therefore one factor alien to the law of value determines surplus-value itself!

Thus, aggregate surplus-value was said to regulate aggregate profits and average rate of profit. But aggregate surplus-value is now only one constituent; the other, the amount of capital, acts as a social determinant entirely independent of the law of value.

Let us say a capital is $150,000 and surplus-value is $15,000. Since the fluctuations of the mass of capital to surplus-value would vary the rate of profit, the law of value is not the "regulator" in the last instance of that rate of profit.

To summarize: The total amount of average profit is a resultant of invested capital divided by the average rate of profit and the invested capital is determined by quantity of labor and rate of wages, and in these rates of wages a factor alien to the law of value is embodied.

So long as prices of production enter into means of subsistence, and wages vary without reference to labor-time in means of subsistence, the surplus-value theory is imperiled. Of course, Marx is right as a *social mass of data*. That is, the quantity of labor embodied in goods that are freely and steadily reproduced is an enormous factor in costs. But it is not unique, and we are here speaking of pure theory.

OTHER NOTATIONS: Böhm-Bawerk maintains that Marx contradicts himself constantly in the third volume of *Capital*. He even says that rates of wages influence prices, contrary to his whole theory, in III, 179 *et seq*. His account of the amount of social capital determining average rates of profit is said to be inconsistent in III, 146, 184, 197, 203, and the account of the effects of organic composition on prices of production is thought not to be tenable as given in III, 142 ff. (*Note:* I have examined these citations and reworked the arguments but do not see the inconsistencies Böhm-Bawerk claims, nor do other critics, such as Hilferding. I note them for the record, for Böhm-Bawerk here is merely dogmatic.—*Author.*)

Exchange Points to Inequality

Böhm-Bawerk then re-examines the foundations of Marxism, elaborating the former study given earlier in this chapter. He again maintains that exchange points not to some equality but to some inequality or preponderance. Either exchange means equalization and then Marx can exclude nothing, but must include land, say, or it means nothing and then Marx has no theory.

Böhm-Bawerk denies that the wealth of society is an immense accumulation of commodities. That definition leaves out Nature, and this still is the fundamental wealth of society. He again asks why he disregards specific use, specific labor, but grants *abstract* labor but not *abstract* use. As to skilled labor, to *count* as so many hours of unskilled *is not to be* so many hours of unskilled.

To count is to count how? Skilled labor is a constituent of exchange. And it is determined as a constituent of exchange by way of exchange! Marx argues that the time of training is to be reckoned into skilled labor. Well, then, a laborer works fifty years. A skilled laborer has been apprenticed for ten. Are his wages only 20 per cent higher?

Marx's Value Theory Reduced to an Absurdity

Böhm-Bawerk amplifies his theory that Marx could equally say that commodities exchange according to weight. Say gold is so much iron. If, on the analogy of skilled to unskilled labor, you say, no, it is not so much iron, but experience shows that it is counted as so much and this reduction is constantly being made, because one gold cup of Benvenuto Cellini is worth forty thousand pounds of iron, and that this is not a violation but a confirmation of the laws of exchange that commodities exchange only according to their weight, according to the average material they contain. This would be just as legitimate as Marx's reduction of skilled to unskilled labor according to the average labor-time, counted as so much of each other.

Marx Made Only Two Fatal Errors

Böhm-Bawerk sums up by saying that Marx was wrong at only two points, but these were fatal. One is in the value theory in the

very first few pages of Volume I. The other is its contradiction in the prices-of-production theory in Volume III. Everything else is logically sound and brilliant and his great construction is the most important monument of his age. But economic science must concentrate on these two basic errors.

Supply and Demand Do Not Cancel Each Other

Now Böhm-Bawerk goes to a *positive* attack. Supply and demand do not cancel each other out as Marx says; *only their successful part does.* Those forces that are excluded from the consummation of the deal have played their part. It is wrong to argue their exclusion because of the equilibrium of the parts that become effective on the market.

Take a person weighing one hundred pounds. The weight is on one side, the man on the other. Can you say we cannot account for the relation of weights because they cancel each other out at 100 but that we require a third factor?

If supply and demand, according to Marx, change into prices of production, how can supply and demand shift the level of permanent value if it is inefficient by itself as an explanation of value, as Marx contends? There must be a determining social element, then, in supply and demand, independent of working time.

First Marx says commodities approximate more to their value as a brisk competition appears (Volume I) and now he tells us that competition pushes commodities away from their values into prices of production. Which end of the dilemma does he want?

He might say, In the first instance I refer to primitive conditions. What, Marx, the great enemy of Robinson Crusoe hypotheses, getting down to this level? From a philosophic genius, the spirit of his age, the builder of the most complete structure in political economy, we must ask a more thoroughgoing reply.

Further Exclusions of Böhm-Bawerk

He again pursues Marx's errors of composition and definition. If in an opera company there are three stars, a baritone, tenor, and bass, and each receives ten thousand dollars a season, how can you say that since in computing salary one voice is as good as another,

and paid for as much as another, that thus this constituent is ruled out and a good voice cannot therefore be the cause of a good salary? Marx, in this type of reasoning, in the law of value, confuses the disregarding of a *genus* (a class of attributes) with the disregarding of the specific forms in which the genus manifests itself.

In order to extend this criticism to the reduction of skilled to unskilled labor, Böhm-Bawerk admits that sixty hours unskilled may be equivalent to twelve (and this is what Marx contended), but he still denies their identity (which Marx never affirmed).

Workers Not Exploited

Furthermore, Marx's whole theory of exploitation disregards *time.* The worker, we are told, gives four hours to himself and four hours to the capitalist and so he has made a gift of four hours a day. But that assumes that the value of the labor emerges every day.

What really happens? A worker is turning out steel girders. He does a part job. It takes months before they reach the market. The capitalist awaits his reward, the worker does not. The capitalist may have to wait five years for his money, say, if he builds a bridge. The laborer on that bridge has produced not a fifth of its value in that first year, but a fifth of the value as it will be in five years. The discounted payment for that "lag" is the source of the capitalist profit. Marx wants future value paid for in the present.

Value Growing with Time

Wine is a better instance still. Wine is worth one thousand francs at Bordeaux at the end of a crop. It has little quality, it bas not matured. Let the capitalist pay the worker one thousand francs, the full working time. There is no surplus-value at all. Yet in twenty years that beautiful flavor is worth ten thousand francs. The profit cannot be explained by surplus-value for there never was any.

The Marxist Reply to the Later Objections of Böhm-Bawerk

Marxist criticism noted at once that Böhm-Bawerk's objections were on a highly different basis from the usual objections. Up to his time the opponents of Marx were really no better than the usual

street-corner interrupter of socialist meetings. "Shouldn't a man be paid for his brains?" "If you divided up there would be rich and poor the next day anyhow," etc. Böhm-Bawerk advanced the debate to the dignity of science.

Reply on Totality of Value

The Marxians begin with their reply to the first observation that the general law of value is useless unless it tells us the specific relation of each commodity to any other given commodity: Kuczynski draws what he conceives to be a perfect illustration, by way of analogy. Take the theory of water motion. We pipe water, we regulate its flow differently in ordinary wells, in artesians, springs, etc. Is the theory of the flow of water explained by listing the specific bores, drills, pumps, and pipes? No. There is an abstract physical theory of the flow of all water, the science of hydraulics, and this abstract theory ignores the individual forms of the motion of water, describes no particular form of water whatever, and describes no actual phenomenon exactly as it takes place. But its theory describes them and its laws govern them and unless we have this abstract theory we have no means of understanding anything. And this despite the fact that water is abstractly described and yet, in practice, it is always concretely availed of.

We ask how and where does profit come from? From surplus-value. And that? From labor-time. And how does it flow? Through pipings composed of constant and variable capital. And how is it sprinkled or flushed throughout the economic system? As an average rate of profit. But the law of the composition and flow of value, like that of the composition and flow of water, is the same throughout. If you cannot correlate all the forms of conducting and utilizing water exactly in conformity with the governing theory of hydraulics, that unfortunately is the nature of the world we live in and no one can transcend it, not even Böhm-Bawerk.

That no science is capable of application to every permutation and combination of circumstance, under the exact application of theory, is the weakness of man's mind, of his perception of the world. Is that a reason for repudiating science? Then all political economy (and all knowledge) is equally threatened. We abstract from

a hundred appearances to get one common explicatory factor. If you argue, with Bergson, that any such procedure distorts reality, then Marx and Böbm-Bawerk march hand in hand to the same cemetery.

Reply to Assimilation of Value to Weight

Now, as to Böhm-Bawerk's theory that by the summing-up method you can use *weight* just as well as value. If actual weights were a foundation of exchange, if so much weight actually commanded more than lighter articles, then his analogy would hold, nor would it be illogical.

But his illustration is spurious. Weight has no effect on exchanges, except that a higher weight of the *same goods* is worth more than less weight, but not as between different goods.

But labor is certainly a seller of its labor-power for a certain number of hours, and even Böhm-Bawerk admits its enormous pragmatic value in the theory of exchanges.

Labor-power is the stuff of production; even a Böhm-Bawerk grants this, for production if not for value.

Good, then weight is no analogy but labor-time is. The correctness of Marx's totalizing method is not settled by witty and irrelevant imagery but on the question of fact: Has he described the manifestations of abstract value, of the factor common to repeated acts of exchange wherever consummated? Now if Marx said, value is one thing and prices of production are another, then Böhm-Bawerk's criticism would hold. But he says no, the prices of production are always corrected by ultimate value, by adjusting themselves to the governing level of values. The price of production is a *medium* of expressing value, not a departure from the law of value.

If labor-time is the constituent spoken of, then its differing quantities are differing permanent quantities of the same thing: they can be referred to a common quantitative measurement, as men of five feet and men of six feet can be added in a census, if they are men to begin with, even though they permanently differ in height. This also disposes of his collateral objection that a total obliterates individual cases with persistent differences.

Reply to the Second Criticism

As to the confusion of an average of fluctuations with an average of permanently differing quantities, Böhm-Bawerk really is saying that social value is an elephant and individual acts of exchange are flies, or that goods representing a constant capital as large as the United States Steel Company are elephants and goods sold by a shoemaker are flies.

Did Marx say that? Does he say that the totality of values is the average of all individual prices of production, that is, a total fixed as a quantity of labor-time, compared with an average of all departures from that total labor-time, expressed in each case as individual prices of production? If that were what he said, certainly Böhm-Bawerk's objections would be worth while.

But what Marx says is that the law of value finds its *concrete* manifestation only in the total capitalist production. It plays a governing part with reference to any given commodity, as expressed in its price of production. These prices of production move according to the attraction of the law of value, exactly as objects of dissimilar weights, in their motions to and from the earth, all conform and are governed by the total equation of gravitational force. Certainly the law of gravity and the weights and motions, at any given point, of any specific bodies, are not comparable arithmetically, but what of it? Without this law of gravitation we should be in the dark as to stellar and terrestrial motion.

Suppose Böhm-Bawerk then says: granted. How do you coordinate the labor in any commodity with other ingredients such as the organic composition of capital, that affect the price of production? Marx would probably have replied that the labor-time is in the commodity and in the constant capital as well, since all goods were created by social labor in so many hours.

But when we think of realizing that value we must think in a class society, as does the capitalist who realizes the value, and whose purchase of means of production is motivated by that form of realization. The capitalist is *governed* by the laws of value, but he realizes profits, not according to that law, specifically, but according to his own needs.

But there is no other *ingredient* in the prices of production than the *value* they contain; whether deferred value of coostaot capital, or deferred value channeled through prices of production into the means of subsistence for variable eapital, or by the prices equalizing the flow of value into prices of production; they can never deal with anything else than *value*.

Reply to the Third Criticism

The historic objection maintains that eapital had no incentive to go into constaot capital unless there were a marked collapse of prices in primitive industries using large variable eapital.

But it did. In order to sustain Böhm-Bawerk's thesis, a timid theory has been advanced that the first large investments of capital, on the contrary, were in industries requiring large constant capital, since eapital had no means of getting artisans to part with a section of their labors except by price competition commencing with constant capital.

The history of industry, much better known since Böhm-Bawerk wrote, has annulled this idea. Capital did go into mining in Europe in the sixteenth century, but in nearly every case the eapital, pumps, ovens, etc., to work the mioes was provided on a share basis by artisans. The great mass of eapital flowed into manufactures, or the assembling of workers under one shed, etc.

How did the eapitalists get the workers? Simple. First, by driving them off the land into the towns, so that they owned nothing, not even primitive means of accumulatioo; secondly, by breaking the guilds by cheaper prices, so that the social monopoly of tools by artisans was defeated; thirdly, by lower prices due to the economies of workers acting in co-operation over those working individually.

As machines that were cheaper than the labor displaced came into use in some industries they resulted in slow gains in constant eapital.

This feature has persisted to our day. In 1890, in the three capitalist lands, Germany, Britain and the United States, the ratio of constant to variable eapital was 1 to 3, in 1913 about 1 to 1, and now constant eapital is most of the eapital employed. In a country such

as the Austria of fifty years ago, Böhm-Bawerk's notions looked better than now. On the historic side, Marx is completely victorious, and no one disputes it any more.

As to the idea that capital took a hundred per cent profit in the early stages of capitalism, when surplus-value and profit were nearly identical, because of variable capital preponderance: first, capital employed persons in new industries and had to offer pay nearly equal to that of the older artisan industries; and secondly, it gained its way by price-cutting. Either theory is against the notion of an insanely high profit at the beginning of capital, (by the use of living labor) as having been so great that it did not pay to substitute machinery for it, on the Marxian hypothesis.

As to the objection of Böhm-Bawerk that Marx's law of value, once valid for capitalism, is now valid only for pre-capitalism, the Marxians reply: Marx's law of exchanges, the accidental form of value, etc., begins with barter. All commodity societies have laws of exchange and, therefore, of value, in common.

The capitalist law of value is not born out of a thundercloud; it arises out of long antecedent evolution. Only that in a society with immense social labor, the tremendous accumulation of commodities and co-operation and the infinite daily repetition of acts of exchange enable us to substitute for accidental or extended forms of value the general form and the money equivalent, as a normalizing process that is more and more in conformity with the law of value.

That the further development of the organic composition of capital results in the social expression of value by prices of production merely means that value governs more than ever, but in a form distorted by the increasing contradiction between social production (value) and private ownership of the means of production (prices of production).

Marxian value would govern even more brutally when competition is negated, say, by monopoly.

That does not prove the historic rebuke of Böhm-Bawerk, for this comes from bis persistent blindness (the cause of all of his objections) to the distinction between appearance and science behind all appearances. As Veblen says, Böhm-Bawerk has no concept of

science, but only an isolated system of schoolboy debating, anxious to win "points."

Reply to the Fourth Objection

This is the crux of the business. All the objections to Marx's price-of-production theory boil down to this one question: How can the law of value govern when profits contain an element alien to the law of value, the prices of production?

But this is already refuted. Marx in the first volume of *Capital* says, "Were goods exchanged at value" (not that they are; he repeatedly says they never are, and as Veblen says, his indictment of capitalism is in just this, that prices *always* deviate from value, that is contradict labor), then such and such would be the law of surplus-value.

Then Marx says, let us look at their specific historic action when they do not exchange at value. Value governs and controls, but how? In a distortion due to the social organization.

The very means of subsistence of the worker itself includes a "price of production," that is, the ratio of average profit as the proportion that the capital engaged in its manufacture bears to total capital. This is the case for certain means of subsistence, specifically, but the total means of subsistence, along with the total means of production are between them the mass of commodities expressed as labor-time only. The totality of the compensation of labor is still the labor-time incorporated into its means of subsistence as a proportion of that labor-time to total labor-time for all production. Its distribution is one matter; its economic existence another.[15]

Replies to the Incidental Criticisms of Böhm-Bawerk

Alleged competition contradiction. (Böhm-Bawerk's contention that first Marx says that commodities approximate more to their values as competition is brisk, and then that he assigns competition as the reason why prices of production are further away than ever from value.) This is based on a really petty trick of substitution.

Marx does not say that competition drives commodities further away from their price of production; what he says is that where

[15] The chapter on Social Accumulation gives the appropriate equations.

commodities *exchange for an equivalent* then competition is the factor that ascertains their correspondence to labor-time, and that where commodities *exchange on the basis of organic composition* it is competition that equalizes the prices (as governed by the law of value), and conforms the ratio of a given capital to total capital, on the basis of the average rate of profit. By ignoring the difference of definition Böhm-Bawerk creates an anomaly.

Fluctuations tend to inequality. This objection of Böhm-Bawerk depends on his proof that the use of an average of fluctuations is not legitimate in Marx, and this has been answered as to his second objection.

A total does not determine its own partition. No one says it does. This argument looks strong because it appears that the total law of value has not been reached by way of an addition of thousands of instances but by Marx's dialectic exploration of phenomena.

But in simpler speech it gets down to this. Marx discovers a total: labor-time. He discovers another total: prices of production. He can analyze their interpenetrations, the moment he has two totals, and value their contributions. True a *total* does not determine its partition, but a *comparison of totals* does. This is real quibbling.

Böhm-Bawerk is aware of this, for he agrees that if one constituent, say wages, is fixed, his problem is solved. But he says this is a mere assumption. But the determination of wages by the hours devoted to means of subsistence is capable of being counted. Where is the assumption? It is an addition, and a real one.

The total theory ignores persistent differences. This is Böhm-Bawerk's everlasting refrain. But the answer is that the Marxian theory is the only one that does explain them. Why does any capitalist always tend to make more money than another, unless he is stopped by a threat of a flow of investment to his industry by another capital?

The Marxist answer is in the ratio of his constant capital to variable as a mechanism for the extraction of a definite quantity of surplus-value. All other theories explain it by "costs" but never explain the variations in the costs themselves.

On the contrary, the total hypotheses of Marx, by their interpenetrations, alone permit us to disengage the causes of persistent

differences. The one greatest persistent difference, between monopolies and smaller competitors, is explained only in this way, as "supply and demand" ought otherwise to lower their level to a common basis.

"Other things" being equal means they are factors in value. Not values, prices. Marx says, other things being equal, prices will reflect values. They never are equal, in effect, and that is why prices and values so rarely correspond. Labor is not the sole cause of price, but of value. This is an elementary error and must have been due to overanxiety to score "points," the greatest psychological weakness of Böhm-Bawerk.

Other Notations: These repetitions of Böhm-Bawerk's earlier ideas, although the answers were given before, are reprinted, because they integrate his system. On one of them, though, a commentary takes place. He says, a common laborer works fifty years, a skilled one is apprenticed for ten years. Are skilled wages only 20 per cent higher than unskilled to compensate time of training?

The figures given show that Böhm-Bawerk came of a noble family with little acquaintance with workers. The average working life of laborers in Great Britain and the United States is about thirty-five years. The average training of skilled laborers, until they are full journeymen, enjoying higher craft wages, mostly takes fifteen years; certainly it is rarely as low as ten. The wages of skilled labor are scarcely more above unskilled labor than a third to a half. The time put into tools must also be counted.

A still better analysis of time, because it relates to the middle and professional classes, is that of doctors of medicine, not the great specialists but the great mass of physicians who establish the average earnings of the profession.

A physician requires pre-medical and medical training, interneship, etc. An ordinary worker gets his working papers at thirteen or fourteen. For seventeen years this doctor has to work either at preparing himself or investing full time in his equipment.

Assume that at thirty-one he begins to recoup his elaborate expenses of training. He has lost seventeen years' earnings that the common laborer has got. If he earns 60 per cent more than labor (that seems to be the nationwide figure, including

rural doctors), then he recovers his investment and catches up with the worker at fifty.

Actually what sustains the middle classes here is the inheritance of class income from former nonmanual or nonprofessional pursuits, that is, from petty bourgeois profits.

Here the time analysis of Marx is peculiarly graphic, for it relates to men who do not think of themselves as socially comparable with workers.

As to whole masses of intellectuals—writers, poets, artists, musicians (on a full-time basis), etc.—their pay nowadays closely conforms to that of skilled labor; that is, their hours of training plus average labor-time. (A Fascist book, Ferdinand Fried's *Ende des Kapitalismus,* is devoted to this very thesis for the European educated class.)

Supply and demand. Böhm-Bawerk admits that supply and demand cancel each other but demands significance for the excluded supply of the unsatisfied demand as the real basis for the demand and supply consummated in an exchange.

This depends on the theory that these offerings and demands are themselves based on nothing else, for otherwise the factor back of them would be the economic cause of value.

As to his illustration of the weights, that is most unfortunate. There is a third factor that explains why a body on one side and a weight on the other balance, and that is the law of gravity that explains both. They balance just because they are equally functions of a third factor.

His second paradox is that if supply and demand are the price factors that convert value into prices of production, then the supply and demand must have some efficiency, otherwise they could not effect this change.

The answer is not that they have no efficiency, for the same question would apply to any variation of price from value. It is that supply and demand are *modes of action* determined by *basic economic factors.* They convert values into prices of production not because "they" exist but because capital seeks surplus-value and it is necessary for the capital with a price above value to bring it down so as not to imperil the foundations of its surplus-value by attracting

competition. Supply and demand are not factors: they are a medium through which factors emerge.

The exploitation question in time. Böhm-Bawerk here assumes that capitalists wait all the time for their value to be realized. But they do not. The worker does not want the value of commodities in the future to be paid right now. He creates so much value in a given week, his labor-time being through, say, on a Saturday.

The difference between that value (*upon which any banker will lend*) and his means of subsistence is a surplus-value irrespective of waiting "time."

The laborer advances his pay to the capitalist, for pay is merely a ratification of time already spent. That the capitalist appears to pay him is the fetichism of wages.

If the worker advances his time to the capitalist, and he is paid off *after* the hours are given, the wages fund advanced against time by the capitalist is a myth. More than that, every capitalist is forever working on bank overdrafts based on the salability of unfinished merchandise.

There are deeper objections, far more decisive, against Böhm-Bawerk's time hypothesis (it has been annihilated by von Bortkievicz in his *Kardinalfehler d. Böhm-Bawerkschen Zinstheorie*), but we are here concerned only with his criticism of Marx.

The wine is another variant of the time theory; it assumes that a gain in value can occur without labor. Here the differential rent theory of Marx is decisive, as is the merchant-capital analysis with reference to the Paris pearl stringers.

As to the three opera singers, by which he seeks to invalidate the method of Marx, as an economic thinker, be is right in his illustration but wrongfully attributes a distinction to Marx, wbo abstracts the difference of quality between baritone, bass, and tenor, where all three voices are economic competitors, but on the relation of *good* voices to *bad* voices, Marx has the same reasoning as that separate uses cannot cause levels of excbange, but that differing quantities of labor-time do.

NOTE ON BÖHM-BAWERK: A frequently met Marxian question on Böhm-Bawerk's conception of time is that any valuation of time is a function of subjective valuation.

Valuation of "time," however, depends on reserves. Obviously a rich man can wait longer for proceeds than a poor man and so values time less; is willing to sell his anticipated income for a smaller discount.

What fixes the "margins"? What limits the supply of goods in time? Antecedent income and antecedent resources.

Thus time, as an explanation of profit, assumes profit to begin with. That applies to the whole business of the Austrian value theory. For the moment that they admit costs —real costs, that is—they have lost the psychological explanation. Hence, in order to escape reality, they posit "pure" demand and "pure" discount in time, which results from an "abstract preference" for the present. Clearly they require this to escape the social implications of man's economic relations.

34

Revisionism

In 1899 socialists were shocked by a cleverly written study of one of the most honored socialist thinkers. That economist was Eduard Bernstein, historian, editor, theoretician of Marxism, and that book [1] has become the Bible of *Revisionists,* that is, those socialists who hold that large sections of Marx's thinking are limited, or superseded, or made obsolete by the facts.

Practically all non-Marxist socialism, which formerly was Utopian, now adopted substantially the reasoning method and statistical interpretations of Bernstein. In England and the United States, where Marxian theory has been less important than on the Continent, the defection of Bernstein was hailed by reformist socialists as a confirmation of their "absence of theory" in the formulation of socialist demands.

Apart from the skepticism expressed as to the philosophy of Marx and Engels, which does not here concern us, they questioned the law of accumulation, of concentration and of centralization of capital, together with its concomitant, the decline of the small capitalist. Under E. David, another German socialist, a really anti-Marxian campaign was carried out against the Marxian theory that agriculture too, though more slowly than industry, must reveal a tendency to mechanization, to higher capital investment, to a reduction of the independent farmers and peasants, and to more wage labor and the comparatively greater proportion of production accruing to rich farmers.

It was declared formally that agriculture must forever remain an exception to concentration tendencies.

But above all it was Marx's theories of the increasing misery of

[1] *Evolutionary Socialism* (translated by Harvey, London and New York, 1909. German original, 1899).

the workers and the increasing gravity of crises that were denied absolutely. Thus socialism was based really on democratic and humane principles, on idealism, in short, instead of on the negative analysis of the prevailing system of Marx.

The wheel had turned full circle. After the proud announcement of Engels that socialism had passed from Utopia to Science, that it took count only of reality and nursed no poetic illusions, Bernstein denied the science and reinstalled democratic aspirations and eclectic strivings after betterment.

At once the orthodox Marxists opened their batteries, headed by Kautsky and the brilliant young expositor Lenin. The revisionist cause was sustained principally by non-socialists, a striking example being V. G. Simkhovich, in his *Marxism versus Socialism.*

Implications of Capitalist Concentration Denied

Bernstein denied that capital concentrated in the economic manner predicted by Marx, although the fact of concentration itself was irrefutable. But the tempo of concentration is slow, and it is not valid for all industries. The middle class may be retreating but it is still vital enough to found enough new businesses to compensate the tendency to concentration, in some measure.

As to classes considered from the viewpoint of revenue itself, the middle class is holding its own, or nearly so, and the workers are doing somewhat better. The professional and "service" classes have increased, giving the middle class another compensation for its losses elsewhere.

If there are fewer independent businesses *relatively,* this too is compensated by the ability to buy shares in the large companies. The lesser power does not much affect income. So that people who have a stake in maintaining the present system are, perhaps, more numerous than before.

Bernstein has an ingenious theory of concentration as being *reduced* by centralization. In the old days when a rich man took over his neighbor, or forced him to the wall, he enlarged his plant. But now a new trust is formed; it acquires smaller companies but leaves their plants intact. That does not affect the organic composition of capital as before.

Bernstein fattened his book with elaborate statistical tables, but most of these are not now maintained even by his followers. We shall cite only such statistics, in the theoretical debate, as are practically uncontested, except where both sides use this weapon to close hostilities. Most of the questions require no such ponderous sets of proofs either way.

Now it is clear that for such capitalists as enter a merger or a trust, the funeral of some of them, by way of competition, has been postponed.

If ten capitalists have factories worth a million dollars each, and all of these would be crushed ultimately by a fifty-million-dollar competitor, and three of them sell out to the trust, then only seven will be made poor men. The three who sold out will not be economic powers but they will be rich.

The only way in which the crowd that bought them out can make them poor is by financial roguery, and economic science is not concerned with crime.

No one disputes the reduced area of competition by reason of the trusts, but it is asserted that this diminution of competition changes the mechanism by which the capitalist system will be weakened. In certain industries, where a monopoly is effected, capitalism cannot be ended by the suicidal competition of various capitalists.

Marxist Theory of Concentration Refuted by its Fulfillment

There are many motives that lead to the formation of trusts. But all of them converge on the reduction of competition. According to the revisionists (and they have had a host of disciples to this day) the Marxist analysis of the manner in which capitalism will end is itself at an end. The trusts require a new theory for their understanding despite the fulfillment of the prophecy of concentration which was so justly made by Marx.

Marxist Analysis of Surplus-Value Superfluous

Bernstein also rejects theory as such. What does it matter, he asks (as did J. Ramsay MacDonald), what manner there is of extracting surplus-value from the working class, so long as we know it

is extracted? By surplus-value, here he means exactly what businessmen mean by profits, and Bernstein, unlike Marx, views it as an appropriation, a plunder.

But this takes out the historical element completely, for there have been rich and poor for millenia and Bernstein throws no more light on this than the honest and impassioned sermons against the pride of the rich that have been cried from a million pulpits for a thousand years. Such a method would make the poet Shelley as good a guide to capitalism as Marx. It is the character of profits as they are realized that determines the economic laws of consumption and accumulation, etc. On this point Böhm-Bawerk and Marx would be at one.

The Marxians point out that Bernstein assimilated only one phase of concentration. True, some capitalists are absorbed. But the enormous increase in capital of these trusts makes it impossible for anyone to compete with these aggregated capitals. Hence new enterprises are reduced in number and the difficulties of the remaining competitors, outside the centralized corporation, are aggravated.

Since the tendential fall in the rate of profit rules for both, the cumulative effect on the smaller undertakings is increased. Nor does Bernstein notice that there is an immense difference in the position of a class when it invests with another and when it controls its own capital. Everyone knows that in a panic the class that invests is injured whereas the number of those that control is diminished and relatively strengthened. If the investor class were as numerous as the old businessmen, it would still be true that the physical concentration of wealth and the corporate centralization of ownership and management would demonstrate the Marxian thesis, "One *capitalist* kills many."

Division of Surplus-Value Is Crucial

But there is a more fundamental difference than control itself. That is in the division of surplus-value. A capitalist on his own extracts surplus-value and then obtains a price of production that must yield him the average rate of profit. But as an investor in bonds or banks he receives merely interest, a section of surplus-value and a rather meager section. As a shareholder his return is theoreti-

cally somewhat higher (though whether it is so in practice has been a matter of statistical sound and fury), but it is still a mere appropriation out of surplus-value, increased, diminished, or withheld at the grace of the controlling group. The compensation for risk that shareholders are thought to get, exists but is really very small.

Now that is not the way in which money is made. Money, despite all the clever calculations of how soon a 4 per cent investment will eat up all the money in the world, is made by multiplication, not addition. The rate of 4 per cent per annum on Mr. Rockefeller's original investment of some $3,000 in 1859, even if he ate only Uneeda Biscuits and lived in a wigwam, would now show about $50,000 at this writing, compounded at ordinary interest.

The billion dollars he made was not interest but profits and the rate of profits of a really good business makes the rate of interest look like a tip which, in effect, it is: powerful men tipping weak investors.

The Middle Class Becomes More Dependent on Wages

In view of the timidity which is natural to investors in view of their historic experiences in finance, their tendency is to restrict themselves to the best secured bonds of the finest companies or guaranteed preferred stocks, etc., thus further reducing their income.

That means that they must do something else to make up the differences, and usually they become salaried employees in a genteel occupation, that is, they approximate *proletarians,* men whose living is basically derived from selling their labor-power and subject to the needs of another man for their services. With each shake-out and bankruptcy of large corporations (the very biggest have gone the way of all flesh—Insull, Krueger, New Haven Railroad, etc.) there are still more of the formerly independent capitalists to swell the ranks of salaried gentility.

Thus the middle class, as a class, is passing away and is being replaced by a white-collar class, whose salaries in some cities is not as high as that of the skilled workers, though their social opinion of themselves (based on the psychic assumption that culture and refinement are in inverse proportion to physical labor) is out of line with their present economic position. This, say the Marxians,

is the altered semi-proletarian that Bernstein and the revisionists call the survival of the middle class.

High Salaries Are Really a Reduction of Class Income

This process is disguised by the corporation itself. Requiring an immense number of accountants, correspondents, economists, managers, salesmen, and executives, it replenishes these ranks from the class that once would have made profits. Historically they are compensated much less than they would have been, but factually they are compensated much more than workers.

It is this upper stratum of the middle class that dots a thousand suburbs with Tudor and Colonial homes. But while it is physically better off than the workers, its precarious position was made vivid in the last crisis. It has no *capital* that makes *money*, it has *savings*, not for profit but for mere *survival*. It is outside capitalism and of its control of the process of production, the ultimate source of all surplus-value.

It too is threatened, the Marxians point out. Its knowledge is being put into textbooks, manuals, rotes. Its experience is being tabulated and copied. It has fewer secrets, less individual dexterity.[2]

In depressions millionaires are quick to see that the executive with his name on a brass plate really would not be missed. The employers then lose the psychology of feudal lords, and when times are bad count their wealth not by the number and dignity of their retainers but by their small payroll. The universities turn out annually shoals of successors to the high-grade man. The wisdom of yesterday is the commonplace of today.

Character of Business Survivals Is More Important than Numbers

Bernstein and his group count the numbers of enterprises that survive. But they forget the character of their survival. Statistics tell us everything except where the shoe pinches.

In England practically every "public-house" is "tied" to some brewer and they are squeezed out of business the moment they stock

[2] When I first entered Wall Street (1908) bond calculating was an occult art. Today high-school boys do for $15 what experts then did for $200. [*Author.*]

another beer. The breweries are among the most concentrated forms of capital in the country.

Hundreds of independent manufacturers of auto parts live by grace of the three large companies. These small capitalists are permitted to survive merely because an intelligent and brutal calculation shows that, strive as they may, in bad times they must go under or get weaker and it is cheaper to have them supply the larger corporation until they drop into its lap for nothing, than either to buy them out or invest in the same line. They live, then, merely as *options on disaster*.

On a less acute basis, hundreds of thousands of small enterprises are permitted to survive because they no longer make the average rate of profit but have sunk to a point where the remuneration is not much above the actual labor of the enterpriser. Statistics are of no use in asking how many capitalists survive merely by counting the number of those that hang up a shingle.

Thus, irrespective of whether a *rentier* or salaried middle class is becoming more or less numerous, the process of production is becoming increasingly concentrated and centralized, as is also financial control.

NOTES: Apart from economics, the psychology of men becomes more socialistic as the large corporations grow. Where millions of men toil in offices and workshops socially, the old idea of the businessman gives way to the idea of advancement within a bureaucracy; that is, the ways of thinking of men working for large banks, etc., become like those working for the government. They think in ranks, salary advances, grading, pensions. They think of investing rather than of going into business for themselves. They seek security rather than danger. The highest good is to "keep a good job," not to "make big money." That is proletarianization.

It is seen much more in England than in the United States. There all social philosophy turns about income—how to raise it or redistribute it, etc. The idea of income would have met with a horse-laugh from a pioneer American farmer or aggressive inventor and industrialist of the 1870's.

These people in England, like the workers, want a job, security, and stable purchasing power, only they prefer it in

five rooms to three. This is a middle class but not the middle class with which Marx was dealing.

By a middle class he meant men who hoped to make money out of running industry and trade for themselves and in a good-sized way.

The new middle class wants state socialism, or it thinks it can obtain the advantages of "national-socialism." But it does not dread state interference as the average businessman does. In this it is like the plutocracy who also favor state control of industry, but for themselves.

This reversal of the ideas of the middle class, with its changed function, would be cited by Engels as an instance of historical materialism. The middle class ferments a vague social unrest, without a fixed purpose or understanding. That is why it meets with the justified logical contempt of powerful, intelligent capitalists. But they miss its social meaning.

The corporate form, by reducing the number of people who owns a business and substituting for it immaterial receipts like shares, bonds, etc., has changed the nexus of private property. The less men are related to their own machines, shops, etc., the more social the concept of property becomes, the less personal.

This weakening of the passion for actual property in favor of pure money or income is a psychological weakening of the basis of power, and greatly reduces the number of those who feel they are charged with destiny. It is by the numbers of such a class that a society lives, grows, and is healthy. The whole English gentry felt themselves bound to govern the State, lead army and navy, and die in battle if need be. They beat the world and won the British Empire. Their French opponents, more gracious and intelligent in a spiritual sense, looked for income and safety and lost the battle of the eighteenth century. A genius like Dupleix in India was not understood at Versailles: a Clive, of far smaller talents, was backed to the full by an avid company and class.

Bernstein Centers on Money Wages

The question of wages and exploitation is considered by Bernstein and his group to turn about money wages. They are not so naïve as not to relate this money wage to a real wage, that is, to

purchasing power. But the question for them is arithmetical. So many wages per annum, correlated with so much weighted index of the cost of living (including rent), is the criterion of worker prosperity, either plus or minus deciding.

The revisionist regards unemployment or short-time as relevant only to the method of addition. If 40 weeks' work produced $1,000, then it is better, if anything, than 50 weeks' work producing $1,050. The wear and tear on the laborer would not be compensated by the mere 5 per cent difference. But there is a qualitative aspect of spaced employment and frequent employment that makes even the money wages under regular and irregular employment have differing significances.

But the more the spacing and the more the unemployment the weaker the bargaining power of labor. Continuous employment means that the employer needs his men steadily so as to insure a good profit. But irregular employment means that the employer is free to dispense with labor. Present wages are thus rendered uncertain, and what is more, the fear of unemployment enables the capitalist to "sweat" the worker more. This is apart from the human power which the threat of dismissal gives him.

Note: Boudin makes the point that there is an amelioration of the lot of the worker, but that this amelioration was produced by labor unionism in the course of long struggle; that is, the tendency to the accumulation of capital is inherent in the capitalist system, but is only achieved in the form modified by the struggle of organized labor against it. This checks the accumulation tendency but only because of the resistance of labor. Thus the exploitation is diminished and the capacity for resisting it increased.

This is an answer to the clever dilemma proposed by Goldscheid [8] that the economic process of capitalism (accumulation and concentration) develops a resistance in the workers so great that, so to speak, the tendency carries with it its own checks, and therefore these tendencies will never reach the limit proposed by Marx and hence that capitalism, by its very contradictions, *inoculates* itself against socialism.

Boudin's rejoinder is that the system does not inoculate

[8] See Bibliography.

itself; the forces that stop its development are the forces that weaken its survival possibilities, for it cannot go ahead except by gaining accumulation, and not only is its course turned back, but the class that has done it is ready to succeed it.[4]

Are Crises Ameliorating?

The long debate on the question of crises with the revisionists got down to their argument (formulated by Tugan-Baranowski in his *History of Commercial Crises in England*) that crises instead of being catastrophic were now ameliorating or, rather, stagnating. Since 1914 this is no longer argued, although variants of it persisted to 1929.

The argument on Imperialism, as saving the capitalist system by the extension of new markets, has led to the examination of the period of time in which the new markets were involved in the contradictions of the home market and the advantage annulled.

The whole discussion has moved to a higher level since the vigorous booklet of Lenin on Imperialism (1916) changed the focus.

What survives of the debate is the celebrated theory of Tugan-Baranowski that overproduction is not a necessity of capitalism. According to this theory if the means of production are produced in a given ratio to consumption goods and a market found, all is well. If this theory is true, then Marx's mechanisms of crises were only temporary motions of capitalism. For the increase to excess of constant capital was his *leitmotif.*

Expanding Capitalism Ends the Marxist Contradiction

Tugan-Baranowski holds that with colonial development the area of capitalism expands. Even in the last fifty years (1860-1910, say), Europe and the eastern United States, centers of capitalism, have taken over the world. Countries such as Japan, closed to all, are opened. Mines are worked in the Congo jungle. Rubber is extracted in the lands of the dread head-hunters of the Brazil wilderness. The world is the market.

The principal goods produced by capitalism are no longer means of consumption but means of production.

[4] See second section of this chapter.

What then becomes of Marx's crisis-theory which assumes that it is the inability to move consumption goods that puts the end to a cycle of prosperity? The means of production are exported for the development of production elsewhere. The development of new lands requires it. Hence Imperialism results in a lesser importance to consumption goods as the term of capitalist production. If the new markets continue to absorb more production goods, and thus a disproportion of production goods to consumption goods is avoided, no crisis can break out. Production can keep on increasing, sell its principal products (which are means of production) abroad and thus, although exploiting labor, not have to face the limits set to its development by the failure of the home consumer's demand! Thus exploitation and assured prosperity can go on for long periods and there is no present necessity why they should ever terminate.

Marxians Maintain Expanding Capitalism Increases Contradictions

Boudin counters by saying: True, the proportion of production goods is increasing as a part of production. True, it is the export market that takes up the higher proportion of production goods. But the significance of this export movement is the opposite assigned to it by Tugan-Baranowski. So long as capitalist countries exported consumption goods that was what took the edge off the limits of the consumption goods market at home and staved off a crisis. But with the means of production exported to them, the newer countries are equipped to produce their own consumption goods. Then they will need less of the means of production (though slowly), exported from the older countries. They cease to relieve capitalism in the older countries of their consumption goods and they are only a short-lived export themselves. Since 1906, experience has confirmed Boudin rather than Tugan-Baranowski.

Waste Is Not a Tragedy for Capitalism

But Boudin formulates another, and to him more philosophical, reply. That is that waste is not a tragedy for the capitalist system, as so many American liberals especially seem to think, but that it is on waste that the capitalist system thrives.

According to Tugan-Baranowski's remarkable history of crises,

all crises are brought into being by the overproduction of those means of production which take the longest to get into play, such as railroads, canals, dams, etc. Capital is driven to develop these immense and long-breathed undertakings in undeveloped territory since it knows there is a limit to the sale of consumption goods at home. The longer this development abroad can be kept going the better the industrial picture.

But the railroads serve no adequate market, the canals no remunerative tonnage. The breakdown spreads to the means of production. Their producers dismiss workers, the consumable goods market goes fast, and then the other means of consumption and production slacken down and the panic is on. The panics of 1873 and 1893 certainly began in this way, and in 1929 the nonremunerative quality of the fifteen billions America had hysterically invested abroad, from German stadia to Peruvian public works, must have hastened the breakdown. The production goods were produced out of proportion to consumer's goods but that did not stop the panic. Marx was right and Tugan-Baranowski wrong.

For means of production are nothing more nor less than means to produce consumers' goods, that is, the means of subsistence of labor. This test limits all means of production manufacture. When the means of production in newer countries fail to produce a response in consumers' goods that would keep them going and accumulating, then the situation is over. Capitalism has thriven on waste but must face a crisis. That, too, is not a calamity for many sections of the system.

The same is true of a war. A war may destroy immense amounts of goods, and many men. But when there has been a surplus production of means of production, and there is a barrier in the limit of consumers' goods, due to the relation of exploitation, then the war at once acts like a panic or crisis.

The superfluous men become soldiers, or work in munitions factories; the destruction of the means of production is rapid, the proportion to consumers' goods is once more in order, and when peace is restored the need for reconstruction makes it possible to keep on making more production goods for quite a while. The destructiveness of wars is related to the question only of the ascending or

descending position of a capitalism when a war takes place. The twenty-three years from 1792 to 1815 left Europe far richer because capitalism was advancing production and population faster than war could use them. The war of 1914 produced the effects of a crisis but the shrinkage of maneuver possibilities in the world market made it fundamentally destructive of the system, although while it rolled on profiteering was perfect, unemployment was abolished, and for a decade afterward American loans for reconstruction made for a whilom prosperity that seemed eternal.

Ethical questions are not treated here, only economic ones. It follows, then, that wars function, while they and the reconstruction last, as a market for means of production. As war has been endemic since 1911, this is an important feature of capitalist economy.

This answers the calculations, say the Marxians, of liberals who point out that on a bookkeeping basis colonies do not pay. It is the specific function of that market in the manufacture of means of production that gives it a *motor* importance not measured by figures.

Marx's Agricultural Theories Assailed

The principal opponent of Marx's agricultural theories is the revisionist Eduard David.[6] He held (and his modern followers who have improved his case): (1) That work by machinery can never be as important in agriculture as in industry, because of the inability to group labor, distribute, divide tasks, organize co-operation, etc., to the same extent as in industry; (2) that steam power and other forms of mechanical force and traction cannot be utilized to the same extent on the farm as in a factory, for in a factory machinery is fixed, and belting is on the move, whereas in farming the machine itself must be isolated and on the move; and (3) that wherever machinery has been adapted for movement on the farm its unit must perforce be far less than that of the giant fixed mechanisms of industry, and so machinery is more available relatively to small capitals in agriculture, and can be utilized even on small plots.

In addition to the mechanical objections, it is stated that by means of marketing and credit co-operatives, as in Denmark, the

[6] His study of agriculture (1901) was twin to Bernstein on industry.

farmers, who are not relatively so outdistanced by large capitals as industrialists, can easily combine and preserve their individual small enterprises, and even make them prosper.

These objections were rightly considered important enough to enlist the ablest of the Marxians on the other side. Lenin devoted more time to this aspect of economic theory and fact than to any other purely economic concept. It was natural for a Russian to understand the importance of this question more than economists in industrialized countries. For while in value the products of agricultural and pastoral pursuits are now far below that of industry (in the United States scarcely over 10 per cent, sometimes even less), that is not true of the number of persons employed. For the world, as a whole, two-thirds of mankind, at least, live by the land. Even if we take Europe, the United States, Canada, together as the industrialized lands, the persons making a living out of farming are still a majority.

The important indexes of a capitalist development would be the number of persons working for money wages in agriculture, the amount of the investment in machinery and the part machinery plays in concentrating production and ownership, in analogy to industrialism. For this purpose it is best to steer clear of some simple statistical errors in grouping.

Statistical Pitfalls in Farm Statistics

Mere size of a farm is not a decisive criterion of the progress of capital investment. For even the group like David state clearly that there is an increase in mechanization, only that they doubt if it aids a concentration of farming, as it would if used in industry. But both sides admit a considerable increase in capital investment. If that be the case then a "small farm . . . becomes transformed into a big farm . . . according to magnitude of production . . . the increasing application of machinery, etc." (Lenin).

The size of farms, too, by combining those with wage labor and family labor, with machinery and without, etc., obscures the specific problems involved, and even distorts them. Here more than anywhere one must be wary of statistical summaries. So many pigs per farm is a useless computation since the wealth of pigs is usually in

their weight and the scraggy pigs of Spain are no match for the same number of hogs in Iowa. The milk and meat yields of cattle are more important than their number. Hence mechanized farms may not be grouped merely by area or by livestock. The specific data of production and machinery and wage labor must be made known before the class groupings in agriculture can be studied intelligently.

Machinery Makes Small Farming Less Competitive

One thing is certain: all statistics converge on the increase of mechanical investments according to the size of the farm. In Germany in 1925 carefully collated figures showed that farms under twenty acres used less mechanization than farms of two hundred acres or more, to a really pathetic extent.

Apart from financial questions, certain machines require a minimum of territory to work in order to repay their installation costs. There is no question of co-operatives combining to offset this, because often these machines can be used only in a limited time.[6] Sowing by machinery cost half as much per acre on farms with eight hundred acres as on farms with forty acres. The per acre cost of harvesting by binders increases rapidly the smaller the size of the farm. Apart from the great crops of grain and fodder, livestock weight per unit is 25 per cent more on large farms than on small and milk yields per cow about the same differential percentage.

In the "technical" crops—sugar, rubber, cocoa, etc., throughout the tropics, in fact, especially in tea and coffee—the small planter is almost extinct.

The same is true of the beef *estancias* of the Argentine, the sheep "selections" of Australia and New Zealand, etc. When the opponents of Marxist thought speak of farming, then, they mean the diversified household type which in number of establishments is still the most common, even among the miserable rice planters of the Orient, or the barley-raisers of India and the near East.

Apart from the increase of tenancy, of wage labor, of the gradual increase in percentage of total production of the larger farms, of

[6] As in harvesting.

the abandonment of small farms (2,000,000 of the 6,000,000 in the United States are not even subsistence farms, especially those in the highland South), the excess of population on the farm that causes a steady trickle to the towns, the question still remains open as to how much mechanization is affecting the farm structure of the capitalist world.

The Agrarian Crisis Is Endemic

The answer must lie in the continued *agrarian crises*. For there can be no doubt that apart from the fillip given agriculture for five years by war prices, it has been in a rather bad way for a quarter of a century and did not participate in the industrial cycles upward to any marked extent. To this day, a part of agricultural income in many countries is derived from subsidy (bounties, equalization payments, etc.).

These continued crises must operate similarly to the crises that drove people originally off the farms in the epochs preceding machine capitalism. They must serve to increase mechanized and large farms.

But there can be no question that the ratio of constant to variable capital will long lag behind industry; that the *technical* (not crop) saturation of agriculture will not be comparable to that of industry for a long time.

To that extent those who feel that the peculiarities of agriculture create a wholly different tempo of concentration against industry are undoubtedly right. It is this tempo rather than the tendency that is in the minds of those who would limit the Marxian analysis of farm concentration. But that tempo is gaining, and may, as most economic developments do, show a sudden leap into great mechanization and concentration during a price crisis, etc. The fact that farm products *at no time* have recovered their ratio to manufactured goods that prevailed before the War, if continued, must prove such a catalyst of historic development. Marxists are vindicated on continuous tendency, but not as yet on full historic accomplishment in agriculture.

Criticism of Marxian Rent Theory

Marx's rent theory has been contested on two grounds by Bulgakov.[7]

(*a*) He denies that agricultural capital participates in the equalization of the rate of profit and therefore denies that rent is created by a surplus profit in excess of the average rate of profit.

If, says Bulgakov, land is a monopoly, there is no free competition, yet Marx says only by competition is the average rate of profit determined as an equalization of differing prices of production.

(*b*) He denies that there is an absolute rent and a differential rent. Marx is dealing with one and the same monopoly ownership of a factor in production; now one monopoly extracts a monopoly rent only.

The argument is answered by Lenin (*Collected Works,* Volume IV, 183-203).

(*a*) Bulgakov confuses the limited quantity of land with the amount of competition on it by capitalist farmers. Land may be limited for grain production at so many acres, but the number of persons competing with their crops on the market are hundreds of thousands. Capitalists will withdraw their money from farming if it yields less than the average rate of profit, even though they should obtain more surplus-value than the average. But though that difference is pocketed by the landlord (or by themselves as landlords if they own the land) they still have the free option of placing their capital elsewhere.

(*b*) With reference to absolute rent: differential rent is paid because of the differing yields or different locations of land. This would persist under capitalism irrespective of who owned the land; even the government would not alter that, if it were the landlord. But we know that just because land is private property the worst possible soil on which a crop can be raised will not be given away for nothing by the landlord to the capitalist because there is a possibility of making more than the average rate of profit on it. That, as we know, is because of the greater proportion of variable capital.

But the landlord, because land is limited by private property, can

[7] *Capitalism and Agriculture* (St. Petersburg, 1900).

hold up the capitalist for the differential above the average rate of profit, although that soil has no differential rent. Thus differential rent exists irrespective of private property in land (under capitalism), whereas absolute rent would be extinguished if land were nationalized. That one rent would persist and the other be extinguished under a different property form shows they are economically different categories.

Bulgakov also objects that as differential rent is being paid for superiorities in fertility and location may not these two factors cancel each other and result in no differential rent?

Marx says the same, but more exhaustively. Marx points out that land near a market but less fertile may command the same differential rent as land more fertile but further from a market. Transport costs cancel fertility advantages. Nowadays we see location advantages diminished by transport, yet the same development is reversed by the growth of cities, thus increasing location differentials for very close farms!

It may be noted that sixty or seventy years ago when capital could freely find new farms for nothing in which to invest, the American Western farm showed *no absolute rent* for a long time and a small differential rent compared to Europe, and thus American crops swept its grain markets.

Diminishing Returns Analyzed

Marx's agricultural theories, especially of rent, have been commented on adversely principally from the view of the "diminishing returns" hypothesis. This celebrated doctrine holds that each additional investment in a given area of land (after a certain amount) yields a smaller crop. The proof of this theory is in the assertion that were this not so why would cultivation be extended? A very small area would suffice for human needs if labor and capital expended on it produced the same results as previous applications. The extension of cultivation is the result of the constantly smaller yields per acre on the older cultivated area.

The Marxians do not contest this formulation, but they limit it. Assuming the same technical level, it is formally true. But, historically, given the changes in technique, it is not true. There is a

diminishing return on the use of the plow until the tractor is invented. There is a diminishing return on the soil until phosphate and potash are used. There was a great diminution before the rotation of crops was known.

The soil of Normandy has yielded threefold since beets increased the crop possibilities. An extra year's work on Utah land yielded nothing until the Widstoe dry-farming method made the rose flourish in the desert. (This is apart from the question that the law of diminishing returns has greater limits than have been assumed even on the present basis of technique.)

And it ignores social relations, practically. A change in agricultural mortgage bank and credit methods largely increased the cultivation of Danish lands, especially Danish cattle, butter, and bacon. The War gave an impetus to wheat raising that surpassed every previous limit set by experience. So both social and technical factors make the law of diminishing returns true only when stated as limited to preliminary conditions before it will begin to operate.

Marx has stated that differential rent, unlike the ideas of Ricardo, Malthus, and West, does not require the resort to inferior soils, or an ever decreasing productivity of agriculture. Marx holds that for the first form of differential rent (mere inequality of productivity of capital on different soils) it does not matter whether there is a decrease or increase of *absolute* fertility of any given area; the inequality, basically, is what counts.

The Revisionist Debate

The objections of Bernstein, Tugan-Baranowski, David, etc., that so impressed their age, now have a rather musty flavor. But the key questions involved: Are the poor becoming worse off (however this question is whittled away and defined); are the rich getting richer (irrespective of the analysis of the origins of their several fortunes); and the theoretical modes of studying "middle class" increase or decrease are still living, and are central to Marxian historic-economic forecast of class relations. The second section of this chapter studies the method for arriving at the truth.

The crux of the question of increasing poverty of the working class is whether they are worse off relatively to the total production

of wealth and income of the capitalist class, or whether they are absolutely poorer than they were.

The categories of poverty and income, as usually employed, are not altogether definite.

How the Meliorists[8] *Put It*

Those who argue that Marx was wrong are fond of citing the automobile and the radio, the cinema and steam heat, etc., the gain in education, the more bourgeois appearance of the workers as to their clothing, than their forefathers, etc. These, they argue, are not referable to strict measurement, and yet they constitute a real addition to the income of the workers.

The spread of public libraries, gymnasiums, swimming pools, and a host of other conveniences and services have lifted life from its former brutality, stolidity, unimaginativeness. The lessened drunkenness, the greater humanity shown to the weak and the helpless, to orphans and invalids, are frequently cited to show a higher cultural level. The insane are scientifically taken care of. Where children once drifted, vocational guidance tells them what to do. All these benefits are a net gain for the worker.

As to the worker's wife, the substitution of gas and electric stoves for the old coal stove, of sanitary kitchens, of steps saved by intelligent planning, etc., help large numbers. So does the use of laundries relieve women. The tremendous fall in the birth rate, whatever its social consequence, means less work and less early aging from overwork by women. This type of argument may be termed the *qualitative convenience* position.

How the Marxists Put It

The Marxists put the whole question differently. Mass unemployment, war and conscription, relief instead of wages, increase of accidents, increase of inhuman speed-up, enslavement of the colonial countries by Imperialist capital, the scourge of crises, loss of savings, inflation, fear for the future, the absence of the older pioneer and independent business hopes, the millions of intellectual proletarians turned out by those very libraries, but finding no job, the late age

[8] Meliorists: those who believe that anything is getting better gradually.

of marriage, the very absence of children (the object of social effort), are high prices to pay for substituting the auto for the buggy, the petroleum well for the hayfield, the cinema for the living theater, the radio for family piano playing and singing.

In view of the qualitative disagreements, it is better to confine ourselves to quantitative aspects, so far as these can be ascertained.

The Qualitative Discussion Is Interminable

For after all, those that think that the King James Bible was better literature and molded a more articulate people than radio or seven-minute he-and-she stories, will never be convinced by the moderns, nor these latter by what they think are stick-in-the-muds. It is the old warfare of the people who count by how much one takes in and those who count by how much one puts out. Political economy must take a more restricted area.

Real Wages Are the Indices

The real wages indices are used by the Marxians as their first gun. In the United States, during the highest prosperity period, the index of wages in terms of the cost of living fell from 1921 to 1929 by some 4 per cent. That is, the *employed* worker was 4 per cent worse off at the apex of prosperity than at its beginning, and this, though socialists always maintain that these indices are "cooked" to put up a good front, especially on the question of rent and additional expense, such as books, shows, clothing, etc.

According to some other figures, from the panic of 1907 to the boom of 1916 real wages fell by 17 per cent—this without taking account of unemployment, short-time, sickness, intensity of work, accidents.

If a total payroll list were made—that is, actual payments to the whole of the working class in dollars and cents (indexes do not cover this)—and against that all the expenses of the workers measured in quantities (so much food, clothing, so much out for rent), they maintain the showing would be far worse, altogether apart from the question of productivity per man, which deals only with relative surplus-value, relative wages.

The Statistical Basis Is Dubious

The Marxians, though using such materials, have realized that they are not theoretically well founded. An ounce of cerebration is worth a ton of mere statistics. In the first place, although there is an International Labor Office at Geneva and a splendid Labor Department at Washington, there is not a single institution actually devoted to a study of the history of labor conditions. Indices, yes; totality of study, no. In order to test the Marxian hypothesis it is necessary to standardize a procedure that will meet with the approval of the non-Marxians as well. This has been attempted by the eminent German (now British) statistician, Jurgen Kuczynski.

What do wages mean? Suppose wages are higher and health conditions worse? Suppose capital pays out the same wages at home only because it exploits ten times the labor on a coolie basis abroad? None of these are easily measured and if measured, easily weighted, one against the other. Yet unless the question is to remain forever on the deductive plane (which is not at all bad, simply not complete), it is necessary to make a tentative showing.

A List of Difficulties

To begin with, the hourly or weekly basis differs, and so do piece rates and time rates. *Rates* of wages and wages paid *in fact* are quite different. As to the tendencies of all these against each other we are much in the dark. Has overtime increased? No one knows. How do yearly wages paid out differ from weekly wage rates, or even weekly pay? Has anyone measured losses due to illness? There are all sorts of conjectured life insurance company figures, but they are far from conclusive. How about strike and lockout losses? Some brave attempts have been made to find out what workers really make during their lives, from apprentice and learner rates through full earning power, down to the last act as night watchmen or taking out the grandchildren. But they are partial and too few in number. The measurement of taxes paid, trades-union dues, life insurance, unemployment insurance, transportation, are all rudimentary and unsatisfactory. Those who talk so glibly about a level of wages can have little idea of their assurance.

Labor Related to Same Capital for Comparison

In the first place the Marxian thesis requires that the full number of workers employed by any groups of capitalists be included. Englisb capitalists do not read geography books and limit their investments to England. They employ cattle raisers in the Argentine, Kaffirs in the South African mines, peasants in India.

Marx speaks of the accumulation of capital at one pole leading to the accumulation of misery at the other. To discuss his equation, both poles must be studied totally. True, it is useful to study labor in England alone, but that would not tell the whole story. The same is true, though in lesser degree, of the United States. The wages paid in New England were finally undermined by those paid in North Carolina and Alabama. The labor employed by all American capital is the basis if the Marxian thesis is to be tested adequately.

It must be recalled that the *constituents of indexes* can change. If horse feed was important in an index of 1890 it would not be today. Nor would the expense of mustache-cups or bustles or bicycles play the part they did.

It is a fact, for example, that workers live far away from the office or factory, whereas a hundred years ago they walked to work. To compute a cost-of-living index, it is necessary to shift units as well as prices, to study qualitative changes in consumption as a guide to measuring different quantities. This is apart from price changes. To make up a moving index invites new difficulties, but a static index also is off center.

An Attempted Formula

For relative purchasing power, the difficulties are increased. Shall we measure the compensation of the worker against all goods produced, including means of production, or only against means of subsistence? If we choose the latter, then, at times when means of production are being produced in a new and bigh proportion, as in a boom, labor will appear to be doing relatively better than if we include this new constant capital.

If we can eliminate prices and get down to physical production we will actually be near to testing the theory of Marx. For be

counts time of labor, and if we approach this analysis by approximating the mass of production, then we are coming close to determining whether his concepts have made good or not. To get as near as possible Kuczynski constructs the following formula:

$$\text{Relative wages} = \text{Net real wage per worker} \left(\text{National per capita product} \times \frac{\text{Cost of living}}{\text{Wholesale prices}} \right)$$

The following laws of wages can be assumed when using this formula:

(1) Money wages and real wages increase during times of good business.

(2) Money wages decrease during a crisis, or bad business.

(3) Real wages, taking account of unemployment, decrease in crises.

(4) Wages relative to total production increase in a crisis (though they decline absolutely).

(5) Relative wages certainly decrease in times of prosperity.

These are called rather the "habits of wages" because nearly all commentators agree that they take place, whatever may be their interpretation. They are not absolutes, they merely indicate general tendencies.

Relative wages, though, show a steady tendency to decline and deviate little from this relation. The importance of this for the theory of capitalist accumulation is very large, but not for the question of absolute impoverishment.

It is necessary to realize that statistics will never give us the answer, nor must we wait until they do. But if intelligently handled statistics point consistently one way, then the deductive work of Marx would seem more correct than ever, though the method of political economy scarcely calls for this check-up.

Intensity of Labor Factor

For Kuczynski there is no question but that the increasing intensity of work is a blow to the conditions of the workers. The only question for him is: Does the alleviation of the condition of the workers, both in times of prosperity and in the factory itself

(in order to keep him as fit as possible so as to be speeded up as much as possible without a diminishing return), counterbalance the wear and tear and threat to working longevity? If they do, then what are called his conditions are not getting much worse. If they do not, real index wages can be forgotten, they are no longer important. If a workingman sells thirty years of his life to a factory for ten years' pay, his wages were below those of a Hindu rice worker who survives fifty years, so far as he is concerned. The alleviation has to equal twenty years for him to receive the value of his labor. Otherwise high wages can become effectively the lowest ever known.

Physical Standards

Another important commentary on conditions are the physical standard of armies in European countries. For the last generation they have been marked down everywhere, and that began before the War!

In computing the effects of short-time and unemployment and labor turnover, one must add the accidents that come from workers at new jobs, due to turnover; the fact that their intensity of labor might be terrific, *but not expressed in production figures because they are inexperienced,* and the nervous fear of losing jobs cannot be measured either. Hence professional statisticians are not intoxicated with their art: they know its limits.

Kuczynski concludes that the British worker was exploited more and more from 1820 to 1850, that from 1850 to 1870 the world monopoly of Britain in manufactures enabled the workers to benefit, that from 1870 to 1900 their welfare was pretty stationary and since 1900 much worse.

If his figures are of value, then only two conclusions can possibly emerge and both justify Marx to the hilt: that the relative position of the British worker to the capitalist has reached the *lowest point of history* and his absolute condition is worse than in 1900. Never before have the rich people been better off, in possessions and relative to the workers, than today.[9] Net real wages have declined from 100

[9] *The Economist* (London, 1937), reviewing Kuczynski, attempts to modify this conclusion in some part.

per employed and unemployed worker in 1900 to 93 from 1924-1932 and even in the boom year 1935 it reached only 102. But on a cyclical basis, it runs as follows:

1887-1895....91	1909-1914....93
1895-1903....99	postwar
1903-1908....95	1924-1932....93

Relative wages in Great Britain are as follows in cycles:

1887-1895....95	1909-1914....88
1895-1903....94	postwar
1903-1908....91	1914-1924....78

The chronic crisis in England and the need for desperate expedients, such as devaluation, protection, etc., are easily explained by the incapacity of the workers' purchasing power for consumption goods to match the accumulation of capital, or even to come near doing it any more. This is perfectly compatible with the immense wealth of British capitalists.

This may appear contradictory, but it is well known that for profits, capitalization, etc., the Russian capitalists were never richer than before the Revolution of 1917 showed that their system was too rent by contradictions to go on.

But it is for Germany that the situation reveals the import of a capital accumulation without reference to relative consuming capacity of the workers and where even the absolute deterioration is not slow, as in England, but ghastly. The cycles are similar to those given for England, but it must be remembered that the level of real wages was lower to begin with.

In 1913 it was estimated at only 75 per cent of the British average.

Real Wages		Relative Wages
1887-1894....92		1887-1894....93
1894-1902....97		1895-1902....76
1903-1909....98		1903-1909....65
1909-1914....96		1909-1914....58
1924-1935....77	(or 58 by British standards)	1924-1935....44

In other words, the German capitalist system has accumulated at such a rate relative to its home labor that only the conquest of half Europe would give it a proper market. Here is the Marxian thesis complete, for in Germany the tendencies of capitalism have not been eased by Imperialism as in Britain.

The German capitalists, unable to resolve this enormous contradiction, cannot continue to manufacture means of production to such an excess, for if the ratio of constant capital is nearly 5 to 2 to variable capital, and that ratio is produced and increased further, it can lead only to a situation that is revolutionary at home or requires perpetual war against neighbors.

Hence the German bankers and industrialists, made keenly aware of the dilemma, beginning in 1927 and madly after 1932, manufactured goods that are neither means of production nor means of subsistence but which are neither productive nor consumable, such as guns and other armaments.[10] This means that an immense amount of raw material is wasted and that neither means of subsistence are being created nor the means of obtaining them abroad. The conclusion is obvious.

Marxian Prophecy Complete in Germany[11]

The Marxians maintain that in Germany completed accumulation at one end has produced misery at the other. Either they must allow the workers' revolution and replace their state with a non-capitalist organization of industry, or they themselves must transcend the capitalist structure in some respects, that is, accumulation for a profit, to try and obtain that profit by conquest abroad.

That is, they are still in the grip of capitalist accumulation; their capitalists still have to make money, however defined, but the Marxian tendency having actually been attained at home, they seek to make their money abroad by conquest. In the conquered territories they can begin the historic carrousel once more of production

[10] It is not commonly known that six years before Hitler a fifth of German production was in armaments. Like all "leaders" he is the epitome of continuous class needs.

[11] Objectively, that is.

of means of production to create means of consumption and thus make money.

This picture, although suspected to be true as to fact for Germany, is contested vigorously by the non-Marxists. Germany was not a product of a Marxian law, she was defeated in war. Polities rather than economic theory ean explain her miseries.

But, unfortunately, her accumulation rate before the War, relative to labor, was already the highest in the world. She would soon have come to the present rate in peacetime. The non-Marxists who grant this point, however, make some very sharp and pertinent criticisms of its validity for proving the Marxian case.

Where, they ask, is the impoverishment of which Marx speaks? True, he does not say poverty will increase, but *misery* and degradation will, and that is much the same thing. When Marx wrote *Capital* and made his dire prophecies, the real wages of labor were about 74. Now, in the last cycle, they were 93, and may even be higher today (in the present English boom).

England was the country Marx picked out to study; stick to it. The working class is not only better off in real wages from 74 to 93 (and could socialism do much better in that time?), but this has coincided with a fall in relative wages from 111 to 78!

The wealthy have accumulated at a rate far greater than the poor have earned wages, but it has not led to an increase of misery but to an increase in welfare. Take any figures you wish, that the worker is speeded up, that the physique of the nation is declining, that the fear of unemployment is increasing. Do these balance the gain from 74 to 93? If not, Marxism is false in this particular. For, after all, the classic lands of machinery are the United States and Great Britain. Unlike Germany, they came into the capitalist arena while there still was time to move. Here you see the capitalist system not cribbed and confined, as in Germany, but with a full play. And its results are beneficial.

The Challenge of Increasing Misery

The Marxians are limited in their reply to this. For they cannot say no, take Europe as a whole, Italy, Poland, Austria; take 80 per cent of the population of Europe today and who can doubt

but that it has lost ground in the period of high capitalism? The system must be described as an entirety.

The reply of the non-Marxists is, these countries are in the brutal, larval stage of early capitalism, or were. They reproduce the horrors of the English and French factory systems before 1850. This brutality is a symptom of the early development of capitalism. But Marx's entire theory turns not on the early but the ultimate evolution of capitalism.

Now the more highly evolved countries like England, Holland, Scandinavia, the United States, are the real test of the theory. Is the condition of the worker getting worse in countries with scope for markets and investments and with a highly developed, old, integrated capitalism?

We see that in England the terrors predicted by Marx have not come to pass. There is an immense amount of misery there, but then there always was.

Where is the dynamics of a labor movement that can permit capital to expand its horse-power immensely, accumulate riches, employ 50 per cent more people than when Marx wrote, and still the conditions of the workers are, at the very best, 20 per cent better than when he wrote, and at the very worst not much worse?

If you say, trades unions have brought this about, capitalism is not seen with its tendencies fully realized but only as modified by labor resistance—then it is clear that within the capitalist system trades unionism can annul or at least blunt the famed law of accumulation of Marx.

The knell of the capitalist system has been turned into a peal of wedding bells. Capital and labor are uneasily married for their good.

Since Marx himself points out that the value of labor-power is determined by historic and moral causes, to a large extent, and that the area of bargaining as to the value of labor-power is very wide and depends on strikes and negotiations, it follows that the ability of labor to make terms within the system is sufficient to end the law of increasing misery. One or the other must explain the evolution of British labor conditions. (This is a more up-to-date version of the Goldscheid theory.)

Marxian Analysis of Total Exploitation

The Marxians reply as follows: It is not a question of the unit but of capitalist society as a whole, on which basis we are willing to discuss the matter. But we do not identify English capitalism with the kingdom called England. Let us compare from what labor British capital actually made its profits when Marx wrote, and from what labor it makes its profits today.

Otherwise we are not speaking of the same thing. If English capital employs 50 per cent of its labor outside England and uses labor at home for more skilled work—that is, it now uses England merely as a department, where once she was a country—then you are saying, in effect, that the wages of more skilled workers should be compared to the wages of all workers fifty years ago.

Actually what has happened is the same as has happened in the northern United States and in France, two countries that have imported their common wage labor from Poland, Italy, the Negro South, or Algeria. In these areas where immigrants or Negroes do the hard work, the older stock of Frenchmen and Americans do more genteel, skilled, highly paid work.

Still no one would say let us compare the wages of native-born white American workers of Anglo-Saxon stock in 1938 steel mills with those in 1860 and see how they are earning wages. For there are no such workers in the steel mills, or if there are they are inconsequential. The Polish and Slovak immigrants outnumber them ten to one.

The British unit must be treated in the same Marxian manner, the same capital against the labor it employs in the process of production, and *out of which it makes its money.*

Lancashire versus India

Now in the textile industries of Lancashire, in old England, real wages per fully *employed* worker, not counting unemployed and short-timers, have risen from 103 at the outset of the century to 109. Over a half-century, since Marx wrote, wages have increased nearly 13 per cent. They are still dreadfully low but they have gone ahead. If we count unemployment and short-time this gain may be more

than canceled, but at any rate there has been no serious tendency to an increasing misery.

The textile industry in India has been established by British capital on a big scale in India since Marx wrote. If we combine these wages with those in the mother country, we find that in fifty years, fully employed labor is getting 10 per cent less in real wages. But in the last decade this current has been reversed. But if unemployment is taken into consideration this gain in the last decade has been much more than canceled.

If we take unemployment for the whole area controlled by British capital we can say that, leaving out speed-up, the condition of labor has deteriorated by more than 20 per cent. The less skilled workers in India suffered more than the more skilled ones in Lancashire.

In the United States the figures of Paul H. Douglas in his statistical study *Real Wages in the United States, 1890-1926,* have been used by the Marxians to sustain their argument that even in the United States (apart from the question of relative wages) there has been an absolute decline in workers' conditions, despite the added amenities of life for large sections of the workers, such as automobiles, radio sets, etc.[12] This computation is complicated by the social fact that whatever may be the absolute conditions of a Polish steel worker compared to those in his home country, his position as a member of the American working class as compared to the capital that employs him, is not affected by his marked improvement in condition by reason of having emigrated.

Theory Is Still the Deciding Weapon

But the question of increasing misery, or the closely allied question of the rich getting richer, or the real fate of the middle class, will not be settled, fundamentally, except by a study of the categories as given in Marx's *Capital* (Volume I).

If it is a necessity of capital to accumulate and centralize, then the tendency for the rich to get richer, relatively to their workers and absolutely with the increase of production, is given in the conclusions of the economic analysis, and it would be a good tech-

[12] Douglas does not agree. He thinks a larger supply of capital helps workers.

nique for statisticians to suspect their arrangements of figures, if they do not conform. If the Marxist scheme of reproduction is not true, then figures of centralization might nevertheless still be correct, but for other reasons. Theory is the decisive factor.

NOTE: It does not follow that workers in Europe or the older parts of the United States are better off, just because of increased exploitation of labor in the newer countries. In England for about thirty years or so the capitalists, on an astoundingly rising trade, did share some of their profits with the workers, but with which workers? Only the upper, skilled group; the lower groups remained in an appalling degradation. The revelations of Booth in *Life and Labor* shocked the complacent England of the eighties, and the Salvation Army movement headed by another Booth to save "Darkest England," and the wonderful eloquence of Arnold Toynbee (founder of "settlement work"), were required to demonstrate that in the only period in history when the workers obtained a slight share in an industrial monopoly, the differentiation *within* labor was made more acute, thus tempering the revolutionary edge of the labor movement.

Thus no *total* figures can have much meaning. Nor can figures of *real wages*, for *national differences*. The League of Nations figures show real wages in 1925 at 100 in London and 59 in Paris. To anyone who traveled regularly and worked in both capitals, this mode of computation was simply ludicrous, no matter how "scientific" its foundations. Marx's total theory of the economic significance of the term "means of subsistence" is profound, and enables us to escape these misleading calculations.

Marx says plainly that be his salary higher or lower, the worker's means of subsistence are determined by his class situation and not his class situation by the level of wages. Hence high wages, if they impede accumulation, slacken investment. Thus his class position cancels his advantage, and the wages level is determined by the fact that he must sell his labor-power, and the capitalist can decide whether to buy it or not. This is apart from the issue whether the position of the workers should be determined by what they *get from* the capitalists as wages or by what they *give to* the

capitalist in the shape of expenditure of energy compared to means of subsistence. Hence when Marx speaks of increasing misery, whatever the temporary movements of wages, he means that the working class, in its class relation, is steadily worsening its position with respect to the sale of labor-power (as shown by chronic mass unemployment) and this is the decisive question.

Naturally this increasing misery proceeds in a most unequal fashion. The development of capitalism being founded on irregularities and leaps in developments, the rhythms of its purchase of labor-power, both as to amount purchased and amounts paid, must vary correspondingly. But these irregularities are within a general tendency, and never depart from its laws.

The rich are getting richer?

This question, the antipodes of the poor getting poorer, is largely governed by the equations on poverty. But it has a methodological interest of its own. The question of the rich has to be dealt with either as a title to ownership, capitalized, or as revenue, so as to have a money expression.

But it is not ownership that confers wealth but a stake in the process of production, since ownership would mean merely a wasting of assets, if the goods owned were spent as revenue. Hence income figures are most significant.

But even these have defects. The institution of Swiss family foundations, of personal service holding companies, of a long series of assignment to "dummies" (with releases of these assignments signed by the "dummies"), the assignment of surpluses to all sorts of contingency funds, the development of "foundations" and endowments in which the same control is exercised, and the same ultimate right of disposition, but where the money *appears* to be given away (and the amount that would be paid in taxation is actually spent on education or charity); these and a thousand other dodges mean that statistics of revenue of the rich are as good as useless for our purposes.

Neither Marx nor anti-Marx stands a good statistical chance on the question of the rich getting to be richer. The evidential method pursued by Anna Rochester in *Rulers of America* is perhaps the best for prevailing tendencies, and the

attempt of Colin Clark of Cambridge University in England to penetrate all veils and determine this personal concentration of command over labor (as against the industrial forms of centralization), make profitable reading but remain brilliant excursions, that may be true and probably are, but are not yet science. (Colin Clark, *The National Income,* especially in pamphlets of the Labor Research Department, Doughty Street, London.)

In theory the question, too, is related to whether the inquiry is confined to such rich people as make their money out of the reproduction of capital in the pure capitalist accumulation, or whether it comprehends rich people who have come out of noncapitalist sectors like agriculture or self-employment, by way of savings, or out of colonial profits. This last group is becoming less important, but it makes all statistics dubious as to their referent.

Gide argues that there is a greater concentration of wealth than ever before but there are also more people rich than ever before, even though their proportion of assets to that of the magnates is decreasing. If he means that population is five times what it was, he is right. But the question is one of *classes.*

Positive Theory of the Present Position of the "Middle Classes"

It is argued that the middle classes are today a compound of petty capitalist and proletariat. The petty capitalists are divided as individual producers and salariat, crossed by petty investments and savings and house ownership.

During the last crisis, a sixth of all businesses failed. Salaried unemployment was almost as great as workers' unemployment. Among "intellectuals," unemployments ran from 60 to 90 per cent.

In production (not in circulation) individual enterprisers have *fallen* by a fourth, their output still more.

The United States is still bourgeois compared to England though, for the middle class is a fourth of persons gainfully employed, in England a fifth. Of the gainfully employed middle classes, only a fourth were independent enterprisers (corrected figures including professionals show nearer a third).

Of shareholders, it is said that 9 per cent owned 80 per cent of all shares. Shareholders and bondholders and property and business owners together are far less important than the corresponding class was in 1870, say, when Marx wrote.

Of farmers, five-sixths earned less than $1,500 in money even in prosperity. Of shareholders some two-thirds derived $100 a year or less from investments, etc.

This parade of figures, repeated to infinity, in a host of books and pamphlets, leaves us unmoved. If anyone had drawn a picture of the condition of England in 1600, the towns crowded with decayed gentry and artisans, shopkeepers ruined by monopolies and by clipping the coin, the swarms of beggars and tramps on every road, the tattered clergy, the dying farms, the continuous alarms and threats of invasion, the figures would have been glorious but their meaning, for our purposes, nil. Most people have always been wretched and the life of most small business people frightfully hard.

What Marx maintains is a thesis concerning the place of smaller capitalists in the process of total reproduction of capital, *as related to a reproduction functioning autonomously*, not reckoning primitive accumulation.[13] This remarkable tendential study in economic processes is converted into a vague populism by the above citations. But we must include them, as they comprise the most significant statistics bandied about in the literature.

[13] Kuczynski, *Zurück zu Marx*, p. 130.

35

A: Critique of the Exploitation Theory

B: The Debate on Accumulation

Critique of the Exploitation Theory

Apart from Böhm-Bawerk's analysis of profit as derived from an *agio* on future goods, the main criticism of Marx's exploitation theory has come from the land-values taxers, the chief theorists of whom are Oppenheimer of Berlin and Max Hirsch of Melbourne.[1] Both are disciples of Henry George, the American advocate of the "single tax," and they fit his deductions to the analysis of Marxism (though Oppenheimer bas his own variations).

Oppenheimer points out that Marx does not say that the tendential fall of the rate of profit may not be so great as to reduce profit merely to an infinitesimal amount, and barely permit the capitalist to accumulate, that is, just make enough to cover simple reproduction, his own consumption and a mere trifle besides. Boudin has answered Oppenheimer, but has not answered what is at the back of Oppenheimer's thinking. Oppenheimer really means to say that if rent were to be socialized then capital, faced with labor that could demand the wages it could earn on the best free land (which would then mean any land) would reduce exploitation nearly to zero.

But Oppenheimer has forgotten the thesis of Marx that it requires a gigantic accumulation and a high organic composition of capital to bring about a tremendous fall in the rate of profit, and that the rate of profit is not an index of exploitation, for it may be low as a percentage of total capital, but the rate of exploitation is thereby made terrific by the rate of surplus-value to variable capital.

[1] Hirsch, *Democracy vs. Socialism* (London, 1901); Oppenheimer, *Grundgesetz der Marxs'chen Gesellschaftslehre* (Berlin, 1903).

He puts aside the Marxist explanation of exploitation for his own. He should have said that with the single tax, exploitation would *cease*. That is the thesis of Henry George. But that challenges not the implication of Marxism, but Marxism itself.

Max Hirsch a Fundamental Critic of Marxism

Hirsch, a sharp and original (and unreasonably neglected) thinker, argues that once rent is abolished socialism becomes a mere tyranny, since the reason for its existence, exploitation, is thus abolished. This is the single-tax classic thesis. It holds that Marx was a most superficial thinker. He confused the oppression of capital with the oppression capital is able to exercise only when it is bound up with what the single-taxers term privilege. As this is the most challenging bourgeois criticism of socialism and Marxian economic thought, it requires a close study.

It begins with a formulation that the socialists agree with, that private property in land must be abolished. But they point out that there is no need to socialize the production of land to achieve this.

By the State's taking over the entire rent of land each year, it extinguishes the basis of capitalization, that is, it abolishes the basis of the price of land. Land is free. Its owners pay its full annual value, the differential rent (single-taxers do not accept the Marxian definition of absolute rent; they are Ricardians). Their land ceases to have value, but then they can acquire any other for the same price, to wit, nothing.

Nothing is disturbed. The State acquires no new powers; land titles are nominally intact. But since wages (here is where they differ from Marx) are really reduced by the monopoly of land, once rent is socialized, labor can get "its full value" and still capital can be compensated.

In addition to land values, the capitalists enjoy privileges, tariffs, franchises, and subsidies, all of which the single-taxers would sweep away to restore the purity of competition—by free land, taxation of full annual value of franchises (or their socialization by government ownership of rails and utilities), free trade, that is, absolutely no privileges.

Here, they say, is a capitalism which annuls all of Marx's pon-

tifieal analysis. The thirty-third chapter of the first volume of *Capital* proves it. A Mr. Peel took $250,000 and 3,000 members of the working class from England to Australia. When they got there (to the Swan River) all his machinery, capital, money, were no good to him. Land was free and the workers told him to go somewhere else. He was through. Marx comments: "Unhappy Mr. Peel, who provided for everything except the export of Englisb modes of production to Swan River."

So that exploitation is not inherent in capitalism but, as Marx says, the foundation of the capitalist mode of production is the expropriation of the mass of the people from the soil.

Here, say the single-taxers, is the Achilles heel of the Marxian theory. For you do not need to go back to barbarism or the colonies to get free land. Taxation can do it in New York. Once the rent of land is socialized, J. P. Morgan joins unhappy Mr. Peel and cannot exploit, on Marx's own thesis.

Labor and Capital Could Harmonize

What society needs is not a confused analysis of class struggle but the real analysis; that is, that the pure capitalist (apart from his intertwining with privilege and land ownership) is opposed, as a category, to the landowner and his interests are really *on the same side as labor*. If labor can earn its full contribution to production, capital is compensated for its savings and risks and so it is possible to enjoy a free market, without governmental or socialist direction; the automatic processes of society are relied on instead of ukases, and still the exploitation of labor ceases, on Marx's own admissions.

Society creates land values by its social activities: this is a reflection of social activity and need. Rent secretes the natural revenue of government as the breasts secrete the natural nourishment of an infant. The individual by his labor creates objects; these are made by his labor. So under a real society, society takes what is its, i.e., rent, and leaves to labor and capital what is theirs, wages and interest. The single-taxers reject the notion of profits as a confused mass of other categories. To them it is like classifying males, females, *and* children. Here, too, Marx was naïve.

Single-taxers Are Wholly without an Accumulation Theory

Neither Henry George nor his disciples are too clear as to how they distinguish the yield of capital from that of labor without exploitation. The "fructification" theory of interest of George does not impress even most of his own following.

The reading of Marx, too, is contested by the socialists. That a condition precedes the capitalist mode of production is one thing; that given that mode, a change in land taxation would abolish the mode, is another. The law of value explains the principle of surplus-value and without it the Marxian sees no explanation of profit. If the single-tax hypothesis were correct and the exploitation of labor were impossible were land to be nationalized, then socialism would have to come in at once as there could be no accumulation of capital.

The Marxian believes, though, that the effect of the abolition of absolute rent would merely be to increase the profitability of farming capital.

That the single-tax absorption of rent by the State is a good thing is admitted, but the Marxian feels that it will not raise the wages of labor, except for a spurt. The theory that men would earn in New York or London what they earn on the best free land would be true only in a society in which gigantic social means of production were not required to compete. As soon as the progress of capitalism has made hundreds of millions of dollars necessary for some industries, the notion that because land is open to capital, it is *therefore* open to labor (so as to break monopoly) has leaped two abysses with one argument.

Accumulation is exploitation. That is the Marxist rock, and until the single-taxers will face accumulation concretely and not assume that it will take place harmoniously because of the Ricardian law of rent, their criticism cannot be deemed decisive, although it is refreshing and at least is not mere apologia.

The Accumulation Debate

The Leninist thesis on Imperialism has divided the Marxist successors more than any other single subject since the death of Marx. To insure the defeat of the revisionists all ranks were closed. For

the answer to Böhm-Bawerk and other bourgeois critics, there were few dissenters.

But the political division of the socialist parties during and after the War led to a complete divergence of speculations on the present tendencies of capitalism. The non-Leninist theories of the accumulation of capital in its ultimate phase follow:

Kautsky on Imperialism As a Mere Projection of Capitalism

> KAUTSKY: Kautsky considers imperialism as the effort of over-industrialized nations to subjugate or to annex a large agricultural country. His reasoning is: industrialism comes to a limit in the home market; other industrial areas involving the same contradictions are of little or no use to it in getting beyond these consumption limits, hence imperialism is nothing more nor less than a continuance of the permanent tendency of capitalism without any new features. It is not necessary to a capitalist state, although profitable to certain sections of it. Since the different rates of growth between industry and agriculture will always compel industrialists to go beyond their own agricultural areas for raw materials and markets alike, this recurrent phase of policy need not be overrated. More than that, by international cartels for raw materials and for delimiting market spheres, etc., there is a likelihood that imperialist solutions will be lessened rather than made more acute.

This theory gets down to the idea of "organized capitalism." That the Marxian concentration theory is so correct that it *may* end in a universal trust, an international super-corporation, a universal holding company of plutocrats, who can divide the world without conflicts, is a favorite hypothesis of Kautsky.

The rejoinder of Lenin was that while there is no technical barrier to such a consummation, technical development can take only a form consistent with certain social settings. The needs of capitalism cause it not only to concentrate increasingly, but also to sharpen conflicts increasingly between those gigantic concentrations.

The very contradictions of capitalism that have led to this concentration must constantly increase with the concentration to which they give rise. Hence the end of this development must be an

epoch of imperialism and war, in which finance-capital and industrial capital (intertwined as a state oligarchy) give battle to their rivals, not merely for a division of the world, but for the actual annihilation of their opponents, so that their larger share will preserve their own situation without their having to involve themselves in hopeless contradictions because of help to their rivals by way of a cartel.

HILFERDING: The theory of Rudolf Hilferding in his *Finance Capital* has the merit of appearing far and away the most comprehensive and detailed Marxian book on the financial aspects of capitalism. He is the theoretician of organized capitalism, but, he asserts, on a Marxian basis. That is not to say that he abandons socialism, but he believes it will be ushered in as an economic evolution of capitalism, and not by catastrophes, super-crises, wars, etc.

He begins with the change in emphasis from industrial capital to finance capital. The sphere of circulation for him has become the dominant economic expression, whatever its economic derivation from the process of production.

The cartelization (or as Americans would say, trustification) of society results in a possibility of price agreements among the large capitalists. Price, instead of being a competitive basis of distribution and a regulator of production, changes its nature when it is agreed upon by the large concerns. It no longer expresses anything but an arithmetical record of allotment. Money is of no use, except as a convenience. It has lost its value as an expression of price

Distribution is mechanical. Each company, allotted a certain area, takes care of that market and so avoids competitive costs, and eliminates disturbance. Part of the new products is given the workers, part reallotted to production. It is a society that is regulated consciously. True, it is on the basis of class antagonisms, but it handles them in an organized manner.

Hilferding points out that the centralization of banking coincides with this cartelization and enables it to carry out its purposes smoothly.

Hilferding agrees that the contradictions of capitalism are so fundamental that even if there are only a few trusts and a

few banks left everything will basically remain as it was in the age of competition. But once there are a universal trust and bank controlling everything, then they can regulate the consumption of the workers to suit their production and class contradictions are ended, perhaps not to the advantage of the worker, but ended for the capitalist overlords.

But owing to the facts that it can live only by an exploitation of the proletariat (and thus class antagonism remains fundamental) and that its structure is so simple to seize, this very cartel is the last act of capitalism. Its suppression leads to automatic socialism, for it has created objectively the organization of production and distribution which can be taken over integrally by a society without classes.

But it is not necessary for the workers to seize the industrial structure by a revolution. If they only seize the banks that control the industrial capital (on his theory that finance capital now is paramount), they can easily institute socialism.

This theory is that of all economists who are convinced that the issue of production is settled in the sphere of circulation, or finance. While Lenin holds that finance capital is integrated with industrial monopoly, he also holds that it functions subject only to the contradictions of the process of production, which is fundamental, etc. There is little need to rehearse the differences; they are implicit in the argument.

Rosa Luxemburg: The celebrated socialist theoretician and martyr was a vigorous and original economist, certainly the woman who has won the most distinction in that science. Her classic book on *Capitalist Accumulation* (1913) is an attempt to detail those mechanisms of accumulation not completely given in the original exposition of Karl Marx. She bases her study on the circulation process of capital as a whole, given in the second volume of *Capital*.[2]

Marx stated that in circulation capitalists acquire commodities from each other with which to extend production and so they use the surplus-value created by one industry in accumulating capital in another. Rosa Luxemburg held that capital could less and less use this primitive expedient and so

[2] Summarized in Chapter 29 of this book.

it found it necessary to deal with noncapitalistic societies, by the exploitation of which it realized accumulation.

This is a very serious alteration in Marxian theory; for it holds that capitalism all along or at least for many decades since it has been highly developed, has not found its increase from within the sphere of circulation as the means of realizing surplus-value produced in the sphere of production, but that it has constantly gone outside of that closed setting in order to replenish itself.

By this means—that is, capital conquering primitive noncapitalist sources of raw materials, of development, and of markets—capitalism lives. Take that away and it withers and dies.

Her elaboration of this theory is carried out with a wealth of citations and instances, but here we confine ourselves to the theory.

From this theory it follows that it is not of necessity the proletariat that will overthrow capitalism at home, but rather capitalism will meet disaster or move outside the closed circle of workers and capitalists. It can no longer accumulate. But she brings back her beloved proletarian revolution which she, splendid rebel, could no more abjure than her own parents. Long before the capitalists lose this last resource of accumulation the class and national antagonisms, the economic and political anarchy that reflect this desperate drive for primitive areas in which to accumulate, will lead to such disasters as to invite the social revolution.

It does not seem too clear how she reconciles the two points of view. For surely, if capitalism fails to accumulate new capital, and cannot escape by any maneuvers at home, within the circle of capital and labor, then really she believes in an *automatic* collapse. This is a pure economic theory and she is too keen a historian to admit the unlimited consequences of a pure economic theory. Hence her compromise.

Her theory is based on an oversimplification. Since she assumes that the accumulation of capital could take place only by primitive accumulation—in effect, that is, by first plundering small producers and feudal survivals, then the colonies (because accumulation within the labor-capital relation was impossible)—she is bound to assume that one state of society

> is pretty much ended before the other begins. For if capitalists must renew their capital outside of the capital-labor relations, then so long as there are noncapitalistic elements in a country capitalists can still accumulate at their expense. This highly stratified idea is the very opposite of the living science of Marxism.

The difficulty here lies in the question of how the accumulation of capital takes place. Marx has shown that the accumulation is a transfer of surplus-value into fresh capital. In extended reproduction, the capital is not merely reproduced but increased. But what has haunted a great many Marxists has been the exact machinery by which this is brought about. They do not merely want to know that X products of labor are incorporated into new capital. They want to have made clear the whole process by which an ever increasing mass of products finds buyers, so that the proceeds can be extended perpetually into new, augmented capital. When it is answered that crises break up this continuity, Rosa Luxemburg would agree but would still maintain that the occasional crisis does not exhaust the limits of capital accumulation; something must explain the *continuous* ability of capital to find clients for its products, since it cannot sell them all to labor, which *steadily* has not enough with which to buy back these goods. In other words, she thinks the contradiction to be a constant feature of capital renewal, and the contradiction in capitalism to be even more deadly than as given in the Marxian schemata.

Attempts to Find the Exact Mechanisms of Accumulation

The replies to this problem have been numerous and nearly all ingenious. The first theory is simple: exports. The inability of the consumer to catch up with the mass of products is relieved by selling abroad. The second holds that apart from capitalists and laborers there are others—professional people, government employees, teachers, priests, independent shopkeepers without employees—and that these take up the slack until even they can no longer do so and the crisis is generated (theory of Struve [8]). And as accumulation,

[8] Available only in Russian. I quote from German summaries. [*Author.*]

by its very increase of capital in proportion to labor, creates more and more superfluous classes (more people not engaged in production) the growth of this "third group" that takes up the unsalable products is itself increased at the same rate as the accumulation itself, whose contradiction with its labor requires it to find just these consumers.

> NOTE: To illustrate: Capital produces 2,000 units and has a surplus-value of 1,000. It uses a capital of 5,000 to produce the 2,000. It pays labor 1,000. Labor can buy only 1,000. Capital then sells this extra 1,000 to the "third group." It realizes its surplus-value and now has a capital of 6,000. That capital is more efficient and requires less labor. Now the capital produces 2,500, which is a better percentage than 2,000 on the first 5,000. Labor gets only 900, since fewer are employed. The surplus-value this time is 1,600, not 1,000. Labor can take only 900. How can they sell the 1,600? Because they have replaced, says Struve, the labor in the factories by employment of servants, flunkeys, salesmen, or intellectuals. These parasitic or subsidiary groups grow with the discharge of labor and the employment of persons out of the surplus. The enlarged class of nonproducers takes up the enlarged slack. When this process fails to work out then the circulation is over; there is a crisis.

This pretty and strange theory is followed by one still cleverer. That is a contribution of the eccentric Russian economist Bulgakov. According to him the means of subsistence and the means of production are both sources of supply for each other. The excess of means of production is sold to capitalists who require means of subsistence (variable capital) for their workers, and the surplus of means of subsistence is sold to those who can use it to assist the production of means of production. The circle is closed as long as both spheres can supply each other in proportion. For Bulgakov it is disproportion rather than surplus-value that interrupts circulation. It was rejected as mechanical by that sturdy, if divergent, Marxian, Rosa Luxemburg. For it is antisocialist.[4]

[4] It follows Marx's *scheme*, but not Marx's explanation of why that scheme is never realized; it is that very discrepancy that *opens* the debate!

The Biological Theory of Accumulation

The last theory states that capitalism has been sustained until now by the nursery. The increase of population has been so great that it has exceeded that surplus-value which incapacitates the laborer from buying back his own product. The more variable capital increases, the more wages (as an absolute amount) are available with which men can found families.

The increase of constant capital gives these workers new jobs, since they are needed to preserve its augmenting value. According to this theory the American worker produced the greatest amount of surplus-value known, but capital was accumulated, despite the discrepancy, because population gained at the rate of some 20 per cent per decade.

Otto Bauer, otherwise not given to many theoretical fancies, rather respected this hypothesis. The collapse of the birth rate recently would, according to this theory, leave no "out" for capitalism and would be the inner secret of the General Crisis.

It is delayed in its application only because the children of yesterday are still numerous and now, middle-aged, form a "bulge" of demand, soon to be flattened out. People to whom population theories are dear would say there is no Marxian contradiction here. The capitalist process produces its clients; finally the rate of surplus-value takes too much out of the workers; they have fewer children because of increased exploitation, and so capitalism cuts its sales throat by shaving the birth rate.

Rosa Luxemburg's Analysis

Rosa Luxemburg maintained that though Marx gave us the correct reason for accumulation and described its effects perfectly (as also the effect on labor), he is out of touch with reality when it comes to stating how the production of surplus goods is realized in circulation.

Not having the theoretical scope of Marx, she declared that the problem can never be solved by reasoning or by a priori methods, but only by historical observation. Marx gave the theory; we must fit it to the facts. Hence she would have been horrified at the idea

that she rejected Marx: she adapted his ideas to the flow of circumstance.

From this point of departure she came to the previously recorded theory that capitalism can save itself only by imperialism. At first the capitalists try to realize surplus-value by the non-laborers' purchases at home; when that ends, by exports (but these are limited by imports which pay for them); and so they are driven to wasteful purchases in half-developed lands, where capitalism has not yet produced its contradictions and where capitalism of the twentieth century finds a situation of the eighteenth century in which it can accumulate without bothering its head as to who will buy or can buy.

In the home market the means-of-subsistence surplus is disposed of; in the imperialist market principally the excess of constant capital. It largely goes to create capitalist production in the undeveloped lands, thus deferring the contradiction only for a short time, since capitalist production, according to Marx, must reproduce capitalist relations and an exploited working class.

Unlike Marx, who held that capital sought its reproduction in the class relations within its system, Rosa Luxemburg held that capitalism can live only on noncapitalism.

That is why Rosa Luxemburg rejects economic theory as any guide to the problem. Since the dependence of capitalism is on noncapitalism, it cannot exchange value for value, which Marx insists on as a theoretical base. It restores *primitive accumulation,* noneconomic activities, plunder, slavery (however disguised) of the natives, theft of natural resources. Her theory, then, is that capitalism sunk in contradictions at home, leaves the economic sphere altogether for the *criminal.* No economic system, she holds, can thrive on economic contradictions.

Hence the more the system robs the colonial countries the sooner it cuts the ground from under its feet.

Rosa Luxemburg asks if Marx's theory of accumulation is correct, how it can be rendered possible, since it is an accumulation of contradictions even more than of capital. His theory never could have been fulfilled! Capitalism can never sustain itself inwardly.

The Importance of the Accumulation Debate

The reason why the theory of Rosa Luxemburg and of those whose ideas resemble hers have been given at length is that nearly every tendency away from strict Marxist doctrine is implicit in her theories. In intelligence it goes far beyond the vaunted "revisionists." Yet its defects seem suicidal. It is worth pursuing, for it makes Marxian theory complete for the present highly evolved capitalism.

Now Marx was the founder of the idea of noncapitalist primitive accumulation. His most eloquent chapters are those that chronicle, with the eloquence of a Father of the Church, the lust and blood and plunder that built up the original wealth of capitalist Europe. But for him that was a point of departure, for soon the plunderers discovered a thousand more treasures hidden in the heart of the machine than in all the jewels of India. The hours of their workers, given them for nothing, were the very El Dorado for which a multitude of cavaliers had given their lives.

Now Rosa Luxemburg and all the others that have sought to solve the riddle of accumulation have failed to note Marx's very serious distinction. That is: there is a "primitive" accumulation and there is an internal accumulation, which latter requires free labor producing for an employer and being paid value for value.

The Part Played by Contemporary Primitive Accumulation

Rosa Luxemburg is right in her descriptions, but her absence of theory leads to what must be termed a complete mistake, and a dangerous one, if Marxian theory is to have pragmatic value.[6] Of course, from the beginning of its evolution capitalism has had vital relations with noncapitalistic society. Raw materials have been sweated out of the colonies and backward lands from 1500 to 1939 A.D.

Labor has been handled mercilessly by way of peonage, slavery, and murderous exploitation in the cotton states of America, India, Africa, in the "Red Rubber" country of Manaos in Brazil, and in Mexico, etc.

[6] I assume the Marxian case to be true in order to advance the analysis. [*Author.*]

It is folly for anyone to deny the part that the sheer plunder of India has played for two centuries in British capitalist prosperity. The Lancashire cotton industry was based on slave plantations in the American South, and undoubtedly it was British capitalist needs that fortified an institution which Southerners were already questioning.

That capitalism has been an interplay of capitalism at home and noncapitalistic elements abroad is perfectly true and apt. Rosa Luxemburg is also right in appraising the need for long-term wasteful investments in primitive lands, for new markets, and so on.

But where she makes her mistake is in the assumption that this participation *alone* keeps the capitalist accumulation going, and that were it to cease, capitalist accumulation within the system, which for her is not primary, would cease also.

Capitalist accumulation within capitalism has been central for the system; it is the other relation that has been important but subsidiary. It is true that imperialism today forces a greater pace in the struggle for foreign markets, in the division of the world. But that is due to the increasing weaknesses of the primary internal accumulation of capital within capitalist relations.

Nor is imperialism so necessary to capitalism that without it it would die. There are certain requirements on the side of labor for that. A breakdown in internal accumulation might bring wanton misery, but not an automatic change in class *power*.

In other words, the capitalist sells abroad not to insure accumulation but to add to it. The tendential fall in the rate of profit, the tendency to an average rate of profit, chokes his possibilities in the close home market. He goes where he can breathe.

At the same time, as this becomes important, the noncapitalistic character of that outside market is disturbed and it enters the capitalist market eventually.

If anything, by its increasing profits above normal, an exchange of commodities with primitive lands quickens the pace of accumulation at home and so *hastens* contradictions. By compulsory sales rather than competitive selling, by cheap raw materials, by income from investments, the noncapitalist world becomes simply a mode of assisting capitalization at home.

The Mistake in the Theory of Third Parties

On the other hand, the theories that the non-labor elements, third groups, and what not, explain the domestic sales, are nonsensical, because these third groups are *sharers in surplus-value themselves.* One cannot look to them to bridge the space between surplus-value and wages.

If primitive accumulation gradually becomes transformed into capitalist accumulation, we are at the starting point. And if there is one point on which Marx is dogmatic, it is that every increase of exploitation abroad leads to a sharpened concentration at home, to a fiercer development of the competitive strife for accumulation, to a pushing of the smaller capitalists to the wall, both in ordinary times and, drastically, by way of crises.

So that Marxist imperialism is more what Lenin thought than Rosa Luxemburg. It is not the dependence of accumulation at home on primitive accumulation abroad, but the conversion of primitive noncapitalistic economies abroad into capitalistic forms of accumulation that are thus universalized. It is this conversion of civilizations outside capitalism (into their taking on more the character of sections of world capitalism) that is the secret of imperialism.

The Role of Price in Accumulation

To understand accumulation thoroughly, and answer its paradoxes (which are as real for bourgeois economies as for Marxian), we must resume the meaning of prices for which goods are sold. Price is determined by labor-time socially necessary in every commodity, regulated by the average rate of profit, and oscillating about that level by supply and demand.

The capitalist can make the spread between cost of production and price of production by two methods: he can exploit his workers more, or he can get a price above the market. We speak of the individual capitalist, not of the whole class.

As a rule prices can be put up only by conspiracy or fraud or monopoly. That means, in plain language, the ruin of weaker competitors. The strong kill the weak. This increases the possibility

of "corners" in commodities, of regulated, dictated prices. The profit of the whole class of capitalists is shared by fewer of them.

By increasing concentration and centralization, workers are more exploited and, through their power in dictating to those who provide them raw materials, the strong capitalists can squeeze their weak suppliers as to price. It is notorious that most of the poor manufacturers who supply chain variety stores are simply in a painful interlude between bankruptcies, because of the prices at which they must deliver their merchandise. Thus the large firms reduce at every point the losses due to competition, by reducing the bargaining power of everyone against them, their supplier, their worker, their customer.

The difficulty with those who see a paradox in the mode of internal accumulation is that they assume that all goods must be sold by capital to labor, then and there, or the panic will ensue every Saturday night, when the payrolls fail to come up to scratch in the market. The goods must be sold, certainly; that is why they are produced. But capitalists have reserves. The smaller ones have less, the larger ones more.[*] Inventories can reach certain levels before there is trouble. Apart from the incidental relief common to all, such as exports or primitive accumulation (these are smaller than one would imagine, and some are not really a *net disposal* of goods), the fact is that the rich companies sustain large inventories, the poor companies cannot.

The constant bankruptcies, foreclosures, assignments, suspensions of business that go on are a continuous crisis for smaller business. The crisis in capitalism occurs when goods, failing to move in a certain volume, by that very quantity interrupt the flow of orders back to such an extent that stoppage of production becomes extremely large.

Crisis Is Not an Absolute Category

But there are not two phases, like the two bottles in *Alice in Wonderland,* labeled "This is Prosperity" and "This is Crisis."

[*] We are now going outside the sale of means of production to producers of means of consumption and dealing with reserves after this interchange of two sections of production is done with. The problem begins when they do not jibe.

Bourgeois economists like to give that impression, but what they really should say is something like this:

All the time there continues a "cold" or "slow" panic for the weakest sections of the capitalists. It is true that if goods are offered and the laborers cannot buy them back there is a stocking of them, an inventory, sheer loss, failure to turn surplus-value into money, and hence for the capitalist the need to stop accumulation.

But goods do not reach the consumer direct. They are sold and bought, often a dozenfold, in the sphere of circulation. Surplus-value is not realized at once in the market. There are merchants who divide it, landlords who seize it, etc., and even criminals and parasites who are in its service. Goods can keep on in the sphere of circulation a fair time before the ultimate showdown continues.

Since the great mass of goods are means of production (*nine-tenths of the profits of American industry are in means of production,* that is, the decisive profit factor), the interruption of consumer demand may take time to register its effects, *so long as goods are being forced below their value into the hands of powerful capitalists* by the continuous failures and losses of the smaller ones.

When Marx describes the contradictions of capitalism, they are given as analyzed beneath their appearance in the historic world, but still as realized in the historic world. What Rosa Luxemburg and the so-called "revolutionaries" forget is that Marx's schemata of accumulation, whether true or false, is integrated with reality and is not deductive. In other words, accumulation is a joint process of realizing surplus-value, by sales and by concentration at the same time.

How the Small Business Accumulates for the Big

Marx made these two processes two faces of the same coin, and not for any academic reason. One involves the other. Not only are the smaller capitalists always failing and weakening, but that merely *registers* their finish. All along their goods are being acquired at prices that are advantageous to the large capitalists.[7]

In the circuit of sales they are, like their workers, making gifts

[7] As Lenin says, monopolies have profits permanently above the average rate.

to the capitalists, not of hours but of goods. That is, they get four hours out of their workers but the larger fisb take three bours away from them.

Thus the constant acquisition of goods and equipment by the rich is a mode of accumulation that defers the evil day when the fundamental relations of classes rip up the whole internal structure of the exploiters and finally reveal its want of basis. Even so it does not always mechanically manifest itself by a fall in the sales of consumer's goods preceding the discharge of workers making means of production.

That is the limiting factor which, as it begins to slow up trade, causes the capitalist to look for "outs," and when these fail, to discharge workmen making the means of production.

As the overwhelming mass of the proletariat are engaged in making these means of production, their discharge causes the already slowing consumers'-goods market to take on a terrible appearance and causes a multitude of failures, and the panic is then realized.

Thus the limiting factor of consumption is a *precipitant,* the discharge of workers in the means of production is a *manifestation,* the transferred crack in consumers' purchases the *"cause"* of a panic, while all along the crisis is *implicit,* overcome by *accumulation by the stronger,* who transfer goods in the sphere of circulation to themselves steadily at less than the average rate of profit, and so sell for more than the average; who, as the market resistance becomes greater, push their weakened competitors to the wall, and thus defer the collapse, until the fundamental contradiction of the process of production overcomes that internal class transfer in the sphere of circulation.

The crisis then becomes a violent method of still further continuing concentration, and is the high point of the continuous effort to remedy the capitalists' situation, not by augmenting prices but by reducing them.

This is the process of accumulation, beyond its fundamentals, as it is seen in the dynamic movement of industry. Rosa Luxemburg and her school confuse the *ultimate* class contradiction with the *constant process,* which involves the complex of capitalist society, intra- and extra-class both.

Capitalist Accumulation Is Conditioned by Class Awareness

Nor does Marx confine himself to an economic system in his schemata. The point must come when the action and reaction of this economic conflict is transferred into an arena of social class conflict which (and not in the economic sphere) decides which class shall determine production.

In other words, no economic system ever comes to an end by its economic mechanisms. These mechanisms create social by-products, but until these *transcend* the economic system it can creak on with the most astounding economic contradictions. The automatic collapse theory considers economics fundamental; it is a theory of *economic determinism*. Marx considers political economy as what it is, an economic system related only to political structure and social movement and conditioned by them, and therefore never autonomous; this is *historical materialism*. This fundamental philosophy emerges more sharply in the accumulation discussion than in any other.

A further note: Primitive accumulation extends in space; internal accumulation in concentrating, shrinks the capitalist area. Monopoly at home will reduce the economic circuit; abroad (at first) widen it. That leads to a very interesting and beautiful series of spiral reactions which, alas, must be shelved for post-graduate studies. It is not necessary to know them, but they are full of lessons for those who love economic involutions.

NOTES: The accumulation debate, which involves crisis and imperialism as necessary corollaries, was not closed with the Luxemburg discussion. Several brilliant attempts have been made to go beyond Marx. The super-imperialist hypothesis of Bukharin transfers Kautsky's unification of the capitalists to their unification in each state; war being conducted then by the states for the single capitalism that will ultimately run every important country. This theory is a form of economic determinism, and takes the evolution of capitalism in every country as though economic technical possibilities move in a vacuum and are always bound to be fully realized.

This scholastic obsession is interesting. It is clear that just as there are still nobles in Europe whose old chateaux face

factories, there will be small capitalists in every country, even if a social revolution is in progress. A stage of development is a historic, approximate description, never a rigid category.

TROTSKY: An interesting eddy in the whirlpool of accumulation theories is that of the leader of the "communist opposition," Leon Trotsky. We pass his political analysis by to center on his theory of a stagnation of economic growth as capitalism matures and develops international monopolies. This is contrary to the thesis of Lenin that such a growth may continue, despite the increase of difficulties.

Trotsky's hypothesis has with it the fact that there is a progressive slowing up of the rate of gain in production, the last quarter of a century being fairly unimpressive.

It may be true that the total rate of gain is lessened but its distribution may vary greatly. Its composition, too, is of importance: in the United States the gains in production have been impressive since 1900, not because of the technical advances, which have been quite disappointing, but because of the conveyor belt, Fordism, organizational speed-up, etc. It is true that capitalism sabotages invention in order to protect its investment in present equipment, and the more capitalism is monopolized the more this is a factor. But it has compensated itself, for example in Germany, by increased exploitation, to create both relative surplus-value and absolute, by extending hours.

Again, it is not only a question of varying rates of gain and stagnation in differing capitalisms, so much as it is a question of why they manufacture, with the finest equipment, such nonproductive and nonconsumptive goods as armaments.

The gravamen of capitalism, in its latest phase, is not so much technical stagnation as technical attempts to integrate societies for a conflict in which the winner can renew the process of accumulation, as he hopes, in its classic manner.

Here an indubitable fact, the lessening of investment in capital goods and of international investment and the slowing up of production rates of gain, are given a formal interpretation which is little more than tautology.

STERNBERG: In Germany, that forest of theories (before its present leaders discovered the futility of the intellect, probably

from surfeit), two more rangers have thriven. These are Fritz Sternberg and Henryk Grossmann.

Sternberg is the master of a style that is rather American, that mixture of miles of statistics, rehearsings of categories in percentages, sesquipedalian footnotes, mountains of citations, and a general literary preoccupation with the range of culture, à la Stuart Chase and the *New Republic* way of thinking.

This economic journalist (though technically well equipped) questions Marx's general law of accumulation. His substitute is that the means of production constantly find a market, but that the underpayment of the workers leads to the accumulation of consumers' remainders which mount steadily and choke the system. It is in the relation of these two constituents, as quantities, that the problem of interrupted accumulation lies.

Like Luxemburg he holds that this calamity is shelved by colonial investment, plunder, etc. He holds, too, that the day must come when this avenue of escape is closed, or nearly closed, and the necessity to accumulate incredible quantities of consumers' goods will choke the capitalist system to death.

For every capitalist, spurred on by the need to make money, must keep on producing or die, and when the internal market is his only resource, and he must pay his laborers for only half the time they give him (this is inexact, but we are citing), the system must throw up so many unsold goods that it can no longer produce, function, do anything but die, obligingly for Herr Sternberg. This is the crassest vulgarization of Marxism with which I am acquainted and deserves the least respect of all. It is exactly how Marxism is presented on a thousand soapboxes: "the workers can't buy back and so the unsold goods stop production." True enough, but that is where the analysis *begins*.[8]

Grossmann is a true scholar and economist and a deep student of Marx.[9] Grossmann underrates the theory of surplus-value which, like Sombart with the theory of value itself, he holds is of books and not of life.

He looks to the tendential fall of the rate of profit to

[8] Fritz Sternberg, *Imperialism* (Berlin, 1925).

[9] Henryk Grossmann. See Bibliography for his several contributions.

annihilate capitalism. He rejects the external hypothesis of Luxemburg and Sternberg, by pointing out that even in a country dependent on exports, like England, 85 per cent of profits are due to internal business and two-thirds of the remainder to trade with other highly developed capitalist countries. He therefore reduces the problem to that of internal accumulation.

Grossmann asks, on the Marxian hypothesis, what is to stop the falling rate of profit? True, it cannot sink to zero, but as the mountain of constant capital gets larger, the variable capital relatively less, the time must come when the average rate of profit on that monstrous investment will not allow of extended reproduction, but perhaps only of simple reproduction. The system will contradict itself: no one will be able to make money, and thus socialism becomes a necessary alternative.

All theories of this type converge on the assumption that surplus-value will some day be unrealizable. The tendential fall in the rate of profit, which for Marx is a tendency that sets up counter-factors in the movement of the working-class, is for these critics a *formal* process. For Marx it is the beginning of a *dialectical* process, and unless the other equation is developing, the system will come to no "logical" end.

36

British Critics of Marxism

The two leading economic critics of Karl Marx in England, by the usual happy British paradox, have been philosophers. The first is the old-time perpetual contributor to *Mind,* the Oxford don, H. W. B. Joseph,[1] and the second the Master of Balliol, A. D. Lindsay.[2] A third critic, F. R. Salter, in his *Karl Marx and Modern Society* (London, 1921), has a host of objections that are also formulated by Joseph and Lindsay.

Joseph's Basic Objections

Marx holds that labor is inherent in commodity-crystallized labor-time. But Marx also holds that competition produces a single average price for any given commodity. The sum total of values is the sum total of prices. Marx's error is simple.

He wrongly holds this total value to be an average of individual values, a mere addition of the several parts of the total stock of commodities. His account turns on a single market valuation for each *kind* of commodity, different from a single market price, and yet each of these is different from ultimate price of production.

Under the term *market-value* Marx deftly conceals, at one time, market price, and at another price of production, and nowhere shows that there is a third thing which is neither price, to wit, value measurable by labor-time, *for this never figures at all.*

Marx does not understand the nature and limits of averaging. He speaks of an average value of all commodities, which is an impossible concept. From a given ratio between the average quantities of two *features in a set of terms,* he supposes a constant ratio between the quantities of these features in the *several terms* to be deducible. It is not.

He uses the notion of an average when he constantly substitutes

[1] *Labor Theory of Value in Karl Marx.*

[2] *Karl Marx's Capital.*

the value of a given article for the labor spent on its production (the socially necessary labor), and does not see that then no man should receive payment according to his labor.

Of the two methods by which Marx says we should determine how much homogeneous, simple labor is equal to a given length of any specific labor, his first method begs the question, and his second, the cost of training specific labor, would not conform to the values thus ascertained. Homogeneous, simple labor, to which the specific different labors are reducible, is logically erroneous, for Marx confuses a *unit of measure* with *generic identity*.

Errors in the Theory of Exchange

Exchanges spring from mutual wants for different things, not from the want of some element in things, of which those that contain more would be the more valuable. No common element would give a measure, for the act of exchange is opposed to a common quality, and does not arise by reason of it, as Marx held. The fact is concealed, but not removed, by price-fixing. Men do not want the same things in the same proportion. Thus value cannot be transformed into prices of production, for in this way, instead of the determination of exchange relations by values, is substituted their determination by prices of production, and it must be one or the other.

Marx conceals a profound heterogeneity; value is congealed labor-time, price a sum of money. They do not coincide, says Marx. In Volume III, page 207, of *Capital* Marx speaks of the value of instruments of labor of two producers as differing, and yet of each containing in his products an equivalent of the cost-price of the means of production consumed by their labor, as well as the equal amounts of new value created by those labors. He has made a substitution, for you cannot add *values* and *prices* to a homogeneous total, yet that is how he arrives at *prices of production*.

Suppose two men (savages) exchanged goods into which both put the same labor-time. Yet one had tools twice as good as the other. The man with the better tools employs nobody. He has fashioned the better tools himself. He makes a profit on the exchange. Where is the surplus-value?

How, then, do we reduce artisan time before mass capitalism?

By the market? That is a contradiction. Yet, to get out of his dilemmas, Marx tells us in Volume III of *Capital* (p. 85) that to obtain the average rate of profit in different spheres of production, *various rates* of profit had first risen from selling goods that coincided with surplus-value obtained in each sphere of production. But this averaging is not intelligible. For each capitalist obtains surplus-value that he has not got out of his own workers or workers in his sphere of production.

But in Volume I of *Capital* he must hold that there is an average surplus-value in each sphere, for in each sphere there is the same organic composition, and therefore for that sphere the average rate of surplus-value and of profit *must* coincide, generally speaking.

But in Volume III he confuses average surplus-value in each sphere with an average rate of profit all around. What Marx should have said was that the average rate of profit in each sphere is fused into an average rate of profit all around, and the determinant of that average rate of profit is the single market price.[8]

But Marx here must assume that prices fetched by equal portions of the stock of any given commodity will reflect equal values. But for averaging he has used prices of production that do not coincide with values.

But he says individual values are established as a single and common market value. Market-price vaguely corresponds. But prices are equalized by competition. Thus the single market-price assimilates the market prices that reflect values.

Market-value thus must differ from individual value, and from market price, and yet again from prices of production.

Marx's fallacy is obvious. An average is ascertained by *arithmetic,* not by competition. Competition produces a *unity,* but not an *average*. Now if labor-time is reduced, and with it values, why should market-value be reduced if prices of production are not reduced?

But you say when labor-time is reduced the profit is raised? Then more capital enters the composition. Hence profits always remain the same, since they are computed as a rate of the larger composition. Then it is labor-time that is the variable in the equation

[8] Marx does say this.

and never the capital. Thus the process of market prices has everything to do with values and labor-time has nothing to do with values. This is Joseph's great paradox of Marxism. If rates of profit do not vary with their proportion of wages to their costs, in any given industry, since surplus-value is not derived from that industry, but from the pool of surplus-value, how is it that any capitalist who economizes on wages *he pays* makes more profits?

Average Rates of Profit

Marx says that total value of commodities regulates total surplus-value and this total surplus-value regulates the level of average profit; and the average rate of profit, by way of the law of value, regulates, in the last instance, the prices of production. (*Capital,* III, 212.)

But if prices of production are attached to commodities, these must have weights, and yet the *ratio* of average prices of production to average weight is single! Marx substituted for the ratios of individual market prices in different spheres of production to the varying amounts of labor embodied in them, the *ratios of their averages.*

How are we to adjust the conception that value in an article depends on labor, with value depending not on labor put into an article but upon the want of labor in it, such as must arise in prices of production? Under Communism this could be solved, but how under capitalism?

The relation of abstract, social labor to concrete labor is effected by way of exchange. But what determines these exchange relations? Abstract labor, says Marx, equates all concrete labors. But how do we recognize this abstract labor at all? By way of exchange manifestations. But the very question is, do the prices represent anything of the kind? Marx confuses the question with the answer.

It is false that differences of quality can be expressed as differences of quantity, within the *genera.* There is no correspondence.

The Positive Concept of Joseph

But Joseph must explain a market. If there are no common properties that can be expressed quantitatively, how is exchange

effected? He argues that differing wants are expressed by a conventional common factor, to wit, money. The least common denominator is dollars and cents or pounds and shillings. These utterly differing wants are expressed by prices. That is all. The differing levels are due not to their being quantities of some common exchange element but to differing intensities of incommensurable wants.

The seemingly intricate objections of Joseph get down to a few basic concepts. They will be best examined, though, in connection with the more fundamental examination of A. D. Lindsay.

Lindsay is clever, philosophic, erudite, and basically sympathetic to labor. It is not easy to see why Strachey refers to his little book as superficial. It is candid and well grounded; if its objections are not tenable, it would not be an amateur who could discover its fallacies.

Lindsay's Objection to Labor-Value

Marx's labor theory has two defects. The first is disregard of monopoly, and the second of demand. A theory of value which ignores demand must, whatever its other merits, be one that ignores *valuing*. Marx assumes demand but neglects its variations. Hence his admitted idea that goods must be of use to somebody else than the producer concedes utility but gives it no quantitative element. Marx's intrinsic exchange-value is the one a commodity would have in a proper society where labor was performing its functions but is invalid for capitalism.

Lindsay now quotes *Capital* (III, 221) to illustrate his point. First you say that quantity of labor-time is value; then if you wish to determine units of skilled labor in terms of unskilled labor, you say that in experience this reduction is constantly being made. Granted, but how? By the act of exchange. The amount of labor-time, then, is not a real sum arrived at by adding units to each other; you first have to ascertain its amounts in exchange value and then you must infer how many units there may have been. But in Marxian theory it is exchange value that is the manifestation of immanent value, not the contrary.

Marx now covers two factors. The first involves no demand,

That one is socially necessary average labor-time. The other involves demand. For it postulates that this labor must be expended in a form useful to others, as otherwise it does not count as labor. So one definition avoids social wants, the other implies them. Then a third question arises. Does Marx mean goods that are demanded by society or only by individuals with effective demand? The latter is relevant to capitalism only.

How can there be a quantity of labor in the sense of definite units if the character of these units depends upon the social necessity of the labor which is being constantly changed by subtle processes, some of them subsequent to the act of labor?

If labor is to be socially necessary to create value, the laborer must come up to the general standard of skill and even rightly anticipate demand. Then these two factors must be reckoned equally with hard work and ordinary skill as factors in the production of value. The social necessity of labor can be determined only by the proportion between men's capacity to produce and their wants. Social necessity of labor depends on differing skills and varying success in anticipating demands. Are we not really back to something like supply and demand?

Is it true that exchange (mere circulation) creates no value? If skill in anticipating demand is a factor in value, proper skill is a factor in value because it avoids misdirection, that is, it saves circulation wastes. Why not say that the laborer incorporates time and the merchant sees that the time is socially necessary and that both conjoin in producing value? Marx knows that the merchant in circulation realizes value. Marx admits that the merchant, by alleviating the time of sale, sets free some time for production (*Capital* II, 149). Then the rate of turnover not only adds to profit but to value. But if mere buying and selling promotes the realization of more value by increasing time for turnover, then new value is added in the sphere of circulation and we have answered the dilemma bow does *M–C–M* become *M–C–M′*.

Difficulties in the Theory of Surplus-Value

Marx shows *A* selling to *B* (*Capital,* I, 174). This is a disingenious way of avoiding the issue by taking two isolated persons in

the act of exchange. Exchange is social. A multitude of *A*'s face a multitude of *B*'s and in order that this meeting in the market place may take place to best advantage they delegate someone to find out somebody else, and so profit is realized as the reward of delegation. Take the village shopkeeper. You say he makes a profit merely out of dividing surplus-value originally dedicated by the producing working class. But he employs nobody and he functions in getting goods to the consumer. Whom does he exploit? Where would the value be in the factory if it did not emerge in those village sales?

Marx is right: there is a surplus-value. But not in his sense. For he got over the contradiction that if the laborer got his subsistence then he was not paid for initiative and extra energy as a class. But this initiative and extra energy is the only reason the bourgeoisie assign for their own income.

Marx thus gave the worker a weapon, for he proved that the worker is regarded on a basis that excludes active participation in profits. Even piecework, which appears to be a reward for his initiative and energy (for the traits the bourgeoisie affect to think so admirable), acts in the end, as Marx rightly shows, as a depressant of wages, as a threat to subsistence.

But that is not to say that Marx's individual analysis of exploitation is correct, however, deep his moral contribution. Marx is haunted by the heritage of Rousseau, of the French Revolution, of the Rights of Man, however he mocks these ideas. If he were social he would not fall into the trap of the hours given by the laborer and the surplus hours above. He has carried over, implicitly, the right to the whole produce of each worker, even if he thinks the contrary.

A businessman can afford to have several bad workers, but he can never afford a bad manager. Thus management must be important for value, for we judge of contributions to production by what would happen were they abstracted. Scientific achievements and gifts of organization have far more to do with the increase of wealth than manual labor. If value above that of each individual laborer is a result of co-operation of a mass of laborers then there should be a common, not a distributed, reward. The labor theory of value is transcended. The case for separate individuals must be given up. But Marx both sees this and does not see it.

Marx Not Socialistic Enough

When Marx gave up the individualistic assumptions of the difference between individual labor-values and the surplus due to co-operation above the sum of individual labor-values, he was forced to the notion of a pool of value in the third volume of *Capital*, and this does explain things better. But then, for what did Marx need all that useless analysis of *individual* commodity value?

For his social production and total prices of production coincide with total value, which coincides with total social labor-time, and this transcends the labor-theory of value. Were it not for Marx's dependence on implied individualistic assumptions he would be a still greater man than the great man he was, for he discovered the new *organon* of economic science, but his mistakes are many and they come from a relic of former thinking.

In plain words, Lindsay maintains that Marx's mistakes are due to a contradiction between his vestigial individualistic assumptions and the new socialism of which he was the correct prophet. This at least, is the foremost *social*, not capitalist, critique of Marx.

Marxist Commentary

The Marxist reply to both Joseph and Lindsay would probably be something like the following, for there is no record of any specific detailed reply in the literature:

Reply to Joseph

Marx does not hold total labor-value to be an average of individual values at all. Joseph imagines this. It is a total social value of which individual values are aliquot parts. Marx *begins* with social value; he does not arrive at it by counting individual acts of labor and adding them up, nor does he divide the number of commodities by total labor-time to produce an average value. There are so many socially necessary labor-hours utilized and that is the pool of value. Each individual amount of labor-time may be above or below aliquot value, but no matter what these differences the total social value is unchanged.

A total that cannot be changed by variations in the relations to that total of individual elements in it, is a concrete given fact: the

foundation of a theory of value. Hence Joseph's scholastic distinction as to averages of a set of terms is put aside. True, there is a difference between total market-value and individual prices of production, etc. But it is not true that labor-time does not figure at all. For it is the total of values which rise and fall as a social mass.

The price of production includes labor-time and average rate of profit, divided by the ratio of any given capital to total capital employed. But this average rate of profit is itself an abstraction from total labor-time by way of the mechanism of total surplus-value. Hence labor-time is decisive for prices of production since the totals must coincide.

Marx Opposed Individual Labor Attribution

It is true that no man should be paid for his labor according to individual labor-time. If Joseph had read the *Gotha Program* notes of Marx he would never had made the objection. Marx points out that any such deduction is Lasallean, and contrary to Marxian principles. Labor as a class is historically entitled to own the means of production, not for ethical reasons, but because capitalist production gives rise to historic contradictions which defeat its original purposes of a gaining productivity, and because social production makes individual competition or monopoly the carriers of crises, disorders, war, and misery.

Generic Differences Objection

Does Marx confuse a unit of measure with generic identity in computing the value of skilled labor in terms of average social labor-time? Here Joseph assumes that skill is not reducible to time; he assumes a generic difference. But no one says it is so reducible. Marx says the concrete labor (which is how we recognize skill) is irreducible, is not social. It becomes social—that is, has value as against use-value—by becoming abstract labor, and abstract labor is reducible to time. Joseph confuses irreducibility of concrete labor, which Marx affirms, with its common modes of measurement, for which Marx gives a criterion. It is he and not Marx who assimilates genera and measurement.

Refutation of Joseph on Exchange

It is true that acts of exchange take place not because two commodities are the same but because they are different. That is the foundation of Marx's doctrine. People make what they do not want and exchange for what they do want, and utilities, says Marx, are incommensurable. True. But that does not explain *levels* of exchange, it explains only the *act* of exchange. Hence Marx says, the act of exchange means that a useful commodity is transferred to the buyer, and it carries, in its utility, the abstract value of the article exchanged for it. The incommensurable use is a *carrier* of that abstract commensurability that makes up the differing levels of value. Thus the objection of Joseph that value cannot be transformed into prices of production because of alleged incommensurability is ill-founded.

It is true that in the price of production of any goods there is incorporated a previous price of production in the instruments of labor, and that for the individual product of any factory each commodity is a composite of its own new value and the transferred prices of production of its ingredients. But the question for Marx is *social*. All commodities, as a total, embrace only labor-time; prices of production are the capitalist *forms* of dividing this value, and in any given commodity there are differing prices of production, but they differ for each commodity and compensate each other in the total.

After all, Joseph is looking for a categorical contradiction between value determination by labor-time and the price of production, whereas the categories (social totals) are in harmony. He has no logical case whatever as he flatters himself, for he has confused the mode of manifestation of value with value itself.

Primitive Surplus-Value

As to the two men with the tools. The labor-time required to reproduce the first tool is not a source of profit but a source of higher value. The time in which it can be reproduced by the other savage (there is no capital here) would equate their earnings. These Robinson Crusoe analogies have nothing to do with a society in which the varying costs of the means of production, as against the

subsistence earnings of labor, result in class divisions in production. But even so Joseph's illustration is futile.

The theory that an average is assumed by arithmetic, but only unity of price by competition, in turn assumes the theory of averages already answered.

Joseph's Dilemma Examined

Now as to the dilemma of Joseph. If surplus-value is not derived from the particular laborers employed by any given capitalist, how is it that if he lowers wages he makes more money? The answer is simple. The individual capitalist's share of the total surplus-value at any given time is not determined by the individual laborers he employs, but if he lowers wages he is able to outsell some competitor and so he obtains a larger section of surplus-value, the total of which remains unchanged.

There is an enormous difference between saying that a proportion of surplus-value to total value is not a specific function of the quantity of labor employed, and saying that this lack of relationship is *total;* that it cannot vary as a proportion.

If total surplus-value is expressed as $1,000,000 and a manufacturer obtains a surplus-value of $50,000 out of only 3 per cent of total labor employed, one can say that prices of production result in 5 per cent surplus-value being extracted from 3 per cent of workers; but if the employer increases relative surplus-value, and beats a competitor, why cannot he make $60,000 out of the $1,000,000 out of 3 per cent of the workers and still leave the principle of the relation of any given capitalist to the pool of surplus-value logically intact? It is question of which actors fill which roles in the show, but not of the show itself.

Certainly Marx substituted for ratios of the averages of prices of production in each sphere, the ratio of total prices of production to total value, which is unity! If we say that five red apples are five to three as red apples to three yellow, that seven oranges are seven to five to five mandarin oranges, why cannot we take these two spheres of fruits and say that the ratio of all apples and oranges to the total number of fruits is unity, twenty to twenty? This is not an analogy, because, for Marx, the prices of production are de-

termined by the total of values, but the classification principle is identical.

The Paradox of Exchange-Value Explained

The paradox that we know of immanent value only by its manifestation in exchange-value, and this in turn illuminates immanent value, simply does not exist. We know of immanent value by exchange manifestations, but it is not by some inherent quality in this manifestation but by repeated acts of exchange that we note that the manifestation is in concord with labor-time. Everything in nature is known by manifestation, and it is the repetition and order of the manifestations which reveal the law underneath. Hence the immanent value, of which exchange-value is the manifestation, is not known *metaphysically,* but by reason of certain continuities which are compatible alone with that identification. Joseph is so immersed in metaphysics that he has forgotten the ordinary day-to-day methods of any science. Marxism does employ categories but not as originating tools. It validates them empirically, exactly as mathematical categories in the celestial movements are validated in observatories.

On Lindsay

The Marxian reply to Lindsay is more facile—not that his objections are not better, but they are less finely spun as cobwebs.

Alleged Defects of Marxian Value

That the Marxist theory of value disregards monopoly is not to the point. Marx refers to an idealized capitalist exchange of equivalents as a hermeneutic procedure to ascertain the laws of motion of capitalism. In the third volume of *Capital,* on the real state of business, he deals extensively with price (not value) distortions due to *monopoly,* and this is *of the essence* of the Leninist theory of imperialism.

As to demand, that has been answered as to the Austrian school. That Marx ignores valuing is a *petitio principii* of which a Master of Balliol should be ashamed. Valuing can be done socially, by way of recognizing the labor-time; why is it always to be a psychic

phenomenon, without an objective determinant? He assumes the definition in the question.

It is as absurd as the celebrated error of John Stuart Mill that as the only test of visibility was being seen, the only test of desirability is being desired. Marx does not ignore valuing; he is concerned with the conditions under which it must take place.

As to Lindsay's theory that only under a Communist society would labor-time value obtain, this is completely wrong. Under Communism there would be no "value" whatever, for value arises by reason of exchange in a commodity society. It is just because value does not coincide with price that we recognize a contradiction in capitalism; were value harmonious with price we would be at a loss for analysis.

On Rightly Anticipating Demand

The objection that the units of skilled and unskilled labor are ascertained in exchange has been answered more comprehensively for Joseph. Now as to differences in rightly anticipating demand and special skill as non-time-factors in value. Marx does not say that labor-time is value. He says *socially necessary labor-time*. There is no "time" isolation to which other "factors" are added. The notion of value is a complex of several simultaneous agreements, labor plus time, plus social labor, plus social demand, plus average skill. Labor-time is the measure of all the ingredients, but their efficiency in value itself (not their measure) is given as a limit in the value-complex. Lindsay confuses measure of value with value. Certainly we are back to "demand," but this demand is the limit of value, not the determinant of quantity of value. Besides which Marx points out that concrete labor has its nexus in utility, abstract labor in quantity of value.

Circulation and Value

Circulation creates value, says Lindsay. The first objection would be Boudin's—why does anyone go to the trouble to produce? Labor is hard. Circulation involves no labor-time in fashioning goods.

But, it is objected, goods are brought to the market. By labor? Yes, there are locomotives and trucks and warehousing and wrap-

ping and storing on counters. But apart from labor, as a *pure act* of circulation, how is value created? Out of the former value? Or out of new value? That is the very problem.

Certainly realization is needed for value. An unrealized value is wasted labor, is not manifested as value at all. But the question here is *new* value.

The merchant sets free time, says Lindsay, so he speeds up production. He is a factor in new value by aiding turnover.

How does he speed turnover? For the totality of merchants? Then that becomes the prevailing social mode of production, and the ratio of capital to labor is back to the original proportion. How do you then explain surplus-value in circulation, given a certain level of production?

For some merchants? Then the social question is not advanced at all; what one gains the other loses.

Lindsay is thinking of merchandising not as a class phenomenon but as an interclass competition.

As to a multitude of *A*'s facing a multitude of *B*'s and delegating merchants to act for them, what difference is there here? Either *A* bests *B* or *B, A*, or *B*'s best *A*'s delegates, but the social total of value is unchanged.

As to the village shopkeeper, he is a compound of laborer (he devotes time to work on goods) and realizer of value in goods. The man is a self-employer and composite of worker and circulator. As worker he adds to value; as circulator he realizes it.

The Theory of Management

That a business can rather maintain a couple of bad workmen than a bad manager is profoundly true. But what is the deduction? Can the capitalists *as a class* have workers so bad that they do not reproduce their own subsistence and a surplus besides? No. This is the social content of production. Certainly for any given business *competing*, the ability to extract *surplus-value* (good management) is a life-or-death matter. For a slave plantation, one or two bad field workers were not as important as a good overseer. But what was the job of a good overseer? To get production out of Negroes whose instinct told them overwork was not for their good.

To appeal as Lindsay does from competitive prowess to social production is to make a logical leap. If "management" can be dispensed with and "labor" alternate "management" under a system of democratic fusion of manual and intellectual work, where is Lindsay's dichotomy? It arises in class society and is certainly valid for that society but not necessarily for any other.

If Lindsay contends that science and organization have done more for production than manual labor he may be right in this regard. The single invention of the steam engine or cotton gin gave labor a far greater power of transferring value and some of adding new value. A million workers laboring at the Pyramids of Egypt for ten years might not accomplish as much production as the brain of James Watt or Jacquard.

But what is the value-deduction? Are the relations of capitalist and laborer in socially constantly renewed production any different? Or does Lindsay contend that inventors are entitled to the full increment of productivity? In that case the descendants of the original discoverer of fire ought to own the world; whoever fashioned the first wheel should hold a permanent mortgage on mankind.

Even so, where does the capitalist class come in? They benefit by increased productivity far more than the workers do. As a *class* they invent less than the workers do.

Certainly productivity is social. Thus the individual case for value is overthrown, and society, heir of technique, is, by its efforts, the sole fabricator of daily renewed and reproduced value. Either technicians should own everything, or capitalists or the community. But there can be no warrant from technique for class relations in the ownership of the means of production by which alone inventions are utilized.[4]

Again, if it can be shown by communal experience in the future that present-day production, by competition and waste, enormously reduced the *total* productive result far below its *capacity,* would not the present management be debited rightfully with waste, and charged with the difference between class production and social pro-

[4] We pass by the pertinent fact that inventors as a class work within a certain technical and cultural setting which is social.

duction for use? Management is thus seen to be a specific function of a given society, but not a factor in "value."

Was Marx a Lame Socialist?

As to the assumption that Marx inherited relics of individualism, the point is not what Lindsay imagines. True, co-operation means that the sum of production is greater than the sum of individual labors. So Marx postulates socially necessary labor of average intensity, that is, as given at a certain *level of co-operation and technique*. Lindsay must have been confused by one of two factors. Either he accepted Menger's naïve idea that Marx believed labor entitled to "its" full product, or he confounded the purpose of Volume I (to illustrate capitalism by stereotyping it) with the great total fabric of Marx in the three volumes of *Capital*.

Cole

G. D. H. Cole is a crypto-Marxian. In his *What Marx Really Meant*[5] he could have been more exact had he stated *What Marx Should Have Meant If He Were As Snappy As an Up-to-date Commentator*. He begins his vindication of "his" Marx by stating that bourgeois economists want to abstract everything into a statie equilibrium, especially like Marshall, or the more thoroughgoing Pareto. (He ignores dynamic economists such as François Simiand and Henry Ludwell Moore.)

Stock-exchange ownership prevents polarization of classes. It offsets the effects of concentration, for the displaced capitalist is now an investor. Friendly societies, lodges, even trades unions, are involved in the system as investors. The significant question is no longer the number of individual producers, but rather the present relation of whole masses of people as having a pecuniary interest in the maintenance of capitalism. This blunts class relationships. Professional men, such as fashionable surgeons and divorce lawyers, are wedded bigamously to the ricb, first by excessive fees and then by investments.

Apart from class analysis, Cole has made some remarkable dis-

[5] New York, 1934.

coveries in Marxism. The prices now prevailing are determined by supply and demand and there is no tendency for them to return to a level of values (apparently not even as a social total). Labor includes the activity of the "brain worker." Unless the system of production is "wholly irrational" it will demand more use-values. (Perhaps Mr. Cole has never heard of crop destructions, restrictions, quotas, etc.) For Marx exchange-value equals objective use-values! (Apparently, then, Marx was as impressed as Bastiat by the harmony of production and value!) *All* costs of production enter into *values*, whether wages or claims of owoership. (Perhaps the prices paid for common stocks in 1929 enter into production costs. Who knows? Cole here goes beyond any bourgeois reactionary, and says that Marx said this.) But the fact that mortgages and notes and graft and whatnot enter into costs of production is perfectly compatible with the idea that labor creates value, for it is the only active agent! (Man is merely another force of nature, says Engels; it is not his activity but bis human significance that is central.)

"If more value must be used to produce a unit of hank manager than of cotton weaver, the difference in cost of production is a measure of value." Marx's ideas of labor-value were valid only if certain kinds of skill and productivity were reproducible *at will*. True, for certain kinds of technical competence, the Marxian thesis might be upheld, but not to such gifts as men owe to "original endowments" of mind or body.

It would have been better if Marx had defined value as that which arises out of the expenditure of any scarce agent or instrument of production. Thus value would still be created only by human agency and transferred from things. But it would have enabled Marx to recognize that scarce material things have value apart from any contribution added by human labor. But values are still social, for they depend on the objective social conditions in which they exist.

Comment

It is difficult to restrain oneself from writing a humorous commentary on this astonishing *olla podrida* of theoretical effrontery. The class theory—that the rich really have transferred the inde-

pendent competitor into a co-operative investor, instead of facing the brutal theory of the role of the stock exchange itself as a concentrating agent—marks the limitations of Cole's "Marxian" mind.

To say that the investments of "friendly societies" are an alleviation of exploitation, whereas the building and loan society is an indirect tax lowering wages, and the "contributed" protection of the workers reduces wages by that difference, is to ignore the class content of Marxism one hundred per cent.

This is not to say that Marx is right in this contention, but no *Marxian* can deviate from that position, which is central to Marx's entire analysis of production.

As to the caricature of Marxian doctrine, any student can by now recognize its utter unreliability. The costs-of-production hypothesis is a delight. As to the allegation that values can exist due to scarcity but nevertheless that all value is created by labor, but though labor creates all value there are values it does not cause, but these are increments of scarcity: the mind does not contain such concepts. One has not the originality of endowment (not reproducible at will, like "common" labor) to fathom such syntheses. The book deserves complete neglect.

A. L. Rowse

This is the fourth Oxford theoretician, Joseph, Lindsay, and Cole being the other three. The only positive contribution of Rowse is in the *Criterion* (1929), in which he points out the inadequacy of the class struggle hypothesis in that it simplifies society into proletariat and capitalist, whereas society contains several class struggles, not merely one.

To anyone who has read the rich analyses of classes and their elaborately antagonistic political moves in such a classic as *The Eighteenth Brumaire* of Marx, this will come as a surprise. The *Communist Manifesto,* too, has the largest catalogue of class antagonisms ever made.

But what Marx meant was that in the sphere of production, which is central to the commodity society in which we live, the primordial class conflict gives the special character to our age.

If anything the criticism of the French scholar, Turgeon, that

Marx over-refined class moves, and made them too fragmentary, may be nearer the truth than Rowse's naïve criticism.

From Oxford to Cambridge: Maurice Dobb

Cambridge, from the great days of Alfred Marshall, overlord of British economics, down to its present most famed specimen, John Maynard Keynes, has usually outdistanced Oxford in pure economic theory. Even logicians such as W. E. Johnson and F. P. Ramsay (a genius who died young) were there harnessed to the economic chariot. The most important Cambridge commentator on Marx is the avowed Marxian Maurice Dobb, who is placed among the critics partly because of his emendations, but mostly because of his examination of other critics. Incidentally, Dobb is the Marxist scholar that English-speaking students can pursue to the greatest profit.

Dobb's latest book will be our point of departure.[6] He begins with a summary of opponents of any theory of value, Marxian included. Among these are Cassel, who holds that an empirical price theory is all we need; von Mises, who in his *Socialism* contends that value is merely an equational system which generalizes the relation between scarce means and given ends in all situations; and Myrdal (see Bibliography), who states that any theory of value based either on real costs, including labor-costs or utility, is an ethical obsession carried into economics. And he cites P. M. Sweezy, who even held that the modern doctrine of value (presumably the Austrian) is more useful to socialism than is Marx's because of its objectivity and greater generality. Since the concept of scarcity covers all objects and that of social labor-time only commodities produced in capitalism, the generality, that Marx rejected for that very reason, is urged as an asset.

Principle of Value Unifying

Dobb holds that in political economy the unifying principle or system of general statements in quantitative form is the principle of value. The adequacy of a system of value is known by the con-

[6] *Political Economy and Capitalism* (New York, 1939).

ditions which such a set of statements fulfills to determine equilibrium and movement in the economic system as a whole. Value is expressed as an equational system in which the number of known conditions is equal to the number of unknown variables within that determined system (note the limitations; they are like those of Marx, exceedingly concrete in application). The specific or concrete content is equal to the constants, for these constants, postulated independently, are determining, but not determined, for their specific context. In other words, we have certain assumptions, taken for granted until they make good, which assumptions do not arise out of the system they determine but which govern that system.

Now in the real economic world there are no such petty, isolated systems. A law of value, since it assumes such a system, can only approximate complex economic reality. It is perfect for a certain type of forecast but not for every type, but it has the most general validity for the largest possible complex data. More than this no theory can furnish.

Now let us study value theories in this light. The smaller the complexity of data—that is, the less general the economic subject studied—the easier the principle. Take a fish market. Supply and demand would be nearly enough to explain the prices, if we knew how much money the goodwives had who come to buy.

In an isolated community, perhaps cost of production would apply.

But when we reach the stage of generality of the capitalist system as a whole we cannot use the present level of wages, profits, rents, as determinants, for these levels are themselves *a result* of the value of commodities as well as an influence.

Value must solve distribution, that is, the price of labor-power, capital, the use of land, as well as give us commodity values. Neither theories that begin with distribution (which shirk the question) nor "isolated" systems, so dear to the Austrians, can solve this, for they express values by values. *There must be a determinant which itself is not a value*. It was for this reason that Ricardo disdained "supply and demand," for this reason, that Mill's *Cost of Production* is not a contribution, nor is any theory of relative value.

Value Must Be a Quantity of Something Else

Value must, therefore, be a quantity, though not necessarily a single dimension or character (although really it is that, we are speaking here of pure logic). Price variables must have a common term. A cost theory cannot express price as a function of two elements if they have nothing in common. The principle that value results from subjective desires and subjective estimates of obstacles to those desires (the marginal utility school) requires as a postulate that they would be equal in equilibrium.

Now Marx satisfies these conditions. He makes *labor-time* an independent, objective representation of human activity, capable of independent, quantitative expression, and by separating it from its sale as *labor-power* showed that the determinant of value was itself, as a commodity, measurable.

Which is the common factor, an objective or subjective one? Smith and Ricardo's errors are known: Ricardo assumed a level of wages uniform at a given time for labor of uniform quality. Land was an exception. Ricardo implied that the ratio of labor to capital was always equal (without reference to organic composition). This is the real onus of Böhm-Bawerk's attack on Marx. But all abstractions (such as the labor theory of value) are merely approximations to reality; it is their later congruence that counts. As early as 1847 in his annihilation of Proudhon, Marx saw the point; he knew that a rise in wages in differing industries would produce quite contrary effects—would produce a price rise in one and a fall in the other, owing to the ratio of manual labor to fixed capital.

The Method of Successive Approximations

Now Ricardo knew his limitations, but he had a restricted purpose. Marx finally increased his labor-time approximations to reality by his price of production theory in Volume III of *Capital*. Mill had spoken of cost as wages plus average rate of profit, but what determined the average rate?

Marx says that price of production equals profit as a quantity depending on surplus-value. His second approximation depends on the first, exactly as later approximations do in physics. (This is exactly the approach by Kuczynski in *Zurück zu Marx*.)

Marx asks, What determines differences between labor-power and commodities? If wages rose would the difference change? Profit and rate of profits depend on the difference: this is the key to distribution. Which element is to be used to open the economic door? Labor?

Well, why not land or capital? But acres are more dissimilar in fertilities and locational uses than labor-hours as a social unit. Capital is excluded because it is a value depending on other values.

The question is not logical, it is *human*. Humanity begets change and increase. Nature produced wealth, but man, social man alone, values. The essence of value is cost; the essence of cost to human beings is expenditure of human energy as applied to nature. Labor, conceived objectively, is the measure of this expenditure. Human beings even make the tools they use. These tools show no cost in their mere use, as labor does (apart from depreciation), nor do they cost by postponement of their use in time. Use cannot be counted twice. Labor is taken not as a formal principle, but because by taking it we are enabled alone to differentiate *one type of income from another*.

Specific Position of Human Labor

To begin with one distinction—the sale of a property right is not necessary like the upkeep of machinery or labor is a necessary cost. Now in the subjective theory of value the very concept of a surplus, contrasted with cost, is missing; there is no fundamental reason given for persistent differences in class incomes.

Marx's theory of labor-value enables us to classify these types of incomes; his joining of the descriptive and classificatory methods of the historical school to the analytical and quantitative methods of abstract political economy, by the use of the value concept (as an approximation to an empirical reality, and not as a closed logical dogma) enable him to achieve this permanent contribution.

Class revenues are due to the motions of capitalism. The concepts we use, although not a picture of this complex reality, are much better than fiction, and enable us to explain wide areas of fact.

The rival theory of subjective, individual utility is a bourgeois necessity, since once you grant objective value political economy

must end in a socialist analysis. The Austrians make value independent of the influence of class incomes on demand. Otherwise their precious demand schedules would not depend wholly on utility. A few Austrians have seen what was wrong; von Wieser (*Natural Value*) declared demand schedules valid only for equal incomes and thought it applicable to Communism!

The Austrians identify desire with satisfactions. These must be one, for otherwise desire (demand) cannot be a function of satisfaction (utility). Now this theory explains no surplus; only a cost theory can.

Surplus is a relation between a given income and some productive activity. Böhm-Bawerk can explain economic contributions only in terms of what eventuates, not of what originates. On Böhm-Bawerk's theory, whoever gets a *price* has made a *contribution*. Surplus need not then be explained.

Why then the persistent differences between the price of labor-power and commodities? Why does not demand press the capitalist down to zero? Why is one class rich and another poor? What stops pure demand from equating the pack?

But the Marxian theory explains that if labor is required to produce more than it uses up, there is a surplus. The economic question is not who contributes, as determined eventually by price, but who appropriates, as realized in price. Not exchange of products but of labors is what really competes.

Ricardo held this, and that higher wages came out of profits. Spoliation as held by the sentimental school of Sismondi does not explain why after spoliation profit persists and is *reproduced* as a class income.

Dobb's Proof of Marxist Social Totals

Homogeneous simple labor is objected to. Marx assumed pure competition in Volume I, a *Tableau Économique* in Volume II, concrete economic determinants in Volume III of *Capital*. This simple labor-power is expanded in concrete treatment later on.

As to Böhm-Bawerk's great contradiction: he states that Marx utters a tautology, a total equals a total. But surely if value of labor-power = total of surplus-value (total of profit equal to total of

surplus-value) is valid for society, and total of wages and surplus-value equals total value of commodities, *it can be tested as a social whole by varying total wages and seeing the result.* There would be no tautology. Profits would go down as a mass and wages rise. That is consistent with the theory that the share in the pool of profits is determined by the size of individual capitals.

Marx held that provided competition of capital in the subsistence industries was similar to industry as a whole, Volume I still governed.

Monopoly cannot increase total profits, but only the part due to the individual monopolist, unless it succeeds in lowering wages. On subsidiary issues, Dobb holds against the mere underconsumptionists, among whom he places Rodbertus (a mere disciple of Sismondi), Malthus, LaSalle, Dühring, Keynes, Luxemburg, J. A. Hobson, Cole. These theories deny that saving is an investment in other labor, that increased production makes goods cheaper with the same profit. But relative surplus-value tries to escape from declining rate of profits by increasing production and so increasing the mass of profits. This is what savings are used for largely.

Rate vs. Mass of Profit Is Not a Mechanical Process

Which tendency will outstrip the other? To Marx this is not fully determined. It is more than a question of production techniques, for class resistances come into the calculation. Strachey, for example, is much too mechanistic in his theory of declining rates of profit. It is the pull of the tendential fall in the rate of profit against the schemes to counter it that results in a persistent strain and it is so-called "accidents" in that strain that produce crises.

The tendency to fall in the rate of profits periodically curtails new investments, production, and employment. This tendency, though, is not realized, but marks what would happen if constant capital were not cheapened and a relative overpopulation were produced that depressed wages, thus cheapening costs for capitalists. If population increases faster than capital accumulation; if the amount of labor superseded by machinery is more than absorbed; if primitive accumulation goes on additionally, then an increase of production is an increase of profits, for labor costs no more, other costs are

less, and markets are greater (if the cheapening of means of production and means of subsistence keep pace).

Hence the concordance of increasing relative surplus-value, accompanied by a cheapening of constant capital, is the capitalist counter-move against the tendential fall in the rate of profit. This is a permanent contest, and no mechanical prophecies will help us as to its intermediate outcomes, except that the strain is always growing greater.

Tugan-Baranowski Centers on a Rarity

Tugan-Baranowski held, completely against Marx, that a higher organic composition must *raise the rate of profit:* Suppose surplus-value doubled and rate of constant to variable not doubled. (But here Tugan-Baranowski assumes this is possible and the question is, is it possible?) But, says Dobb, only where the price of labor-power is constant and the price of commodities does not fall, the relations between higher labor-power productivity and the degree of change in organic composition becomes a counter-tendency to the tendential fall in the rate of profit. This is the rarest of theoretical possibilities; it is not much seen in practice.

Dobb's Theory of Cyclic Recovery

In a crisis, the industrial reserve army is increased and labor-power cheapened. But, it may be asked, a crisis also deflates sales by reducing purchasing power through unemployment and low wages? But lowered wages increase surplus-value, *as a rate,* and so encourage investment and subsequent employment. A crisis also retards technical change, and thus clots the permanent tendency to lower profits. In other words, in ordinary "boom" times, capital tries to make money by increasing constant capital; in bad times, by technical stagnation and putting the burden of "recovery" on the backs of labor.

Dobb cites an interesting Marxian emendation of Ester Boderup, a Danish economist who holds that in a class society, such as ours, there is a one-way relation between demand for consumers' and producers' goods, both rising and falling together; there is no com-

pensatory tendency. Hence interest rates depend on the fact that there are no countervailing class tendencies to enforce an equilibrium of demand, and do not depend upon the rate of profit.[7]

Dobb concludes that the conflict leading to crisis is ultimately one between productive power and class relations in production. When a Varga, in his *Great Crisis*, says it is between productive power and consuming power, it is oversimplified and very near underconsumptionism. If these Marxists will study *Capital* (III, 303) they will have a firm grip on a real theory of crises.

Dobb cites favorably J. M. Clark's *Strategic Factors in Business Cycles*, which points out that consumers' demand *follows* production of consumers' goods. This is decisive as against the underconsumptionists. Wages rise more as the boom grows and production relatively increases more slowly. This leads to the profits contradiction.

Dobb skirts the central question of intensive *vs.* extensive fields of investment (the core of the debate around Rosa Luxemburg's accumulation theory); there he has no special contribution, although he is always suggestive.

The Dynamics of Capitalism

He asks, If we have no population theory like that of Malthus, why does not labor finally extinguish profits? It is a legitimate question. Take France—in 1870 she had 38 millions, in 1935 merely 42 millions. Why does not the tendential fall in the rate of profit, with no increase in population, result in a premium on labor and an end of the profit system?

In the first place the cheapening of constant capital is one capitalist escape. But most decisive of all, the moment profits weaken investment recoils, and consequently employment crashes, whether the population be gaining or static or declining. It is not a question of numbers but of class relations.

New production is a function of profits. Capital goes on strike if there is none. There are always new supplies of labor, from

[7] This appears to contradict Marx, but Miss Boderup would probably explain that the rate of profit limits interest rates but does not determine rates up to that limit.

agricultural displacement, colonial exploitation, etc. When wages are too high, tending to lower profits, capital calls these defensive means into play, exactly as an octopus pours out ink when cornered.

Notes on Dobb's Contribution

Dobb belongs to the small group of Marxians who have tried to present Marxian doctrines from a different angle. The theory of value as a central organizing concept, whose validity gains with its area of reference, is an ingenious defense of the view that Marx's theory of value is the center of his economic system. His social theory of crises (that their tendencies are not purely economic but are significant because of a class setting) is also productive of real thought. That political economy is a logical system which, at given points finds no solutions in that logic, must appeal either to experience or outside living factors, reiterates the principal thesis of Engels in *Anti-Dühring*. On the other hand, some of Dobb's statements are extreme.

That the bourgeoisie have no theory of surplus is not as exact as it might be. Böhm-Bawerk held a subjective theory of value, but his time theory of a surplus (even if untrue) is an attempt to explain surplus without a costing hypothesis valid for the present.

That acres are more dissimilar than labor-hours is not a necessary, nor even a probable, hypothesis, in order to show why land cannot be taken as a source of surplus-value.

One gets just a bit of the feeling in the first part of Dobb's brilliant book that he is making sure that no opponent can escape through the meshes of analysis. This is just what Marx never does as a logical method.

His theory of crises, on the other hand, is in the best tradition of Marxism, but it is a pity that he did not make his excellent approaches more exact by studying the mechanisms of internal accumulation and their exact relation to the noncapitalistic world. The Leninist insistence that the general crisis of monopoly capitalism presents certain features that *negate* previous crises (in the dialectic sense), opens a real possibility of new Marxist edifices.

Shorter Notes on Minor British Criticism

J. A. Hobson—"Economics and Ethics" (*Boston*, 1929)

The veteran economic historian, whose *Evolution of Modern Capitalism* and *Imperialism* were honored by Lenin, is a non-Marxist hero of the Marxists. He attempts a critique of certain concepts of Marx. He says that when Marx attributes to each employer the ability to take and keep labor's product in the face of competition, he fails to distinguish economic payments necessary under capitalism to the providers of capital and organization, and payments made in excess of this amount. Thus costs and surplus are distinguished: that part of profit required to replace capital and to reward enterprise is a necessary cost of business, the same as is labor, whereas any payments above these necessary costs, and "saved" by the capitalists, are parasitic and are the real cause of crises and consequent low wages.

This combined theory of quasi-rents of ability, like that of Alfred Marshall, links Hobson to other Fabians like Sidney Webb. The theory that savings produce disaster is an old Proudhonist concept.

Hobson further holds that because monopoly enjoys a permanently higher rate of profit than capitalism as a whole, such industries in England as banking (credit monopoly), brewing, and tobacco (monopolies due to "tied" retailers and immense excise taxes) have a permanently excessive rate of profit which forces them to oversave and provoke crises.

There is a fair amount of truth in some of these criticisms. Obviously a certain section of surplus-value is reinvested in more production, but according to Marx it must be; that is the law of extended reproduction. Of course, it is a "necessary" cost under capitalism, but how is it to be differentiated from money "saved"? "Saved" money is rarely hoarded; it too is reinvested.

When capital goes on strike, practically no money is reinvested; when there is a boom practically all money is reinvested.

Hobson's distinction seems stiff and formal. As to the rent of ability, that has been dealt with *ad nauseam* in previous sections of this book.

On the question of monopolies, Marx is more profound than Hobson, and anticipated him, for it is by the mechanism of price

warfare, which leads to the monopolists' obtaining a higher than average rate of profit, that the phenomenon of centralization is accomplished. Marx gives an exact economic description of the function of monopoly profits; Hobson a purely ethieal view of the situation.

Edwin Cannan

The veteran economist mentions Marx rarely and seems to have hit on only one objection. Labor a homogeneous mass? he inquires haughtily. What! An hour of labor spent in discovering radium, in hop-picking, or in muddling a business, are all equal in value?

It is not too much to ask that even veteran economists read at least two pages running of an author they criticize. For Marx replies to the question raised, completely, at least as far as his theory is concerned, within the first few pages of *Capital*. Cannan could have found out that the words *average socially necessary* and *simple, homogeneous,* conditioned the notion of *labor-time*. Instead he reiterates in quite a number of places his meaningless objections.

Henry Clay

The economist whose textbook is the most widely circulated in the British Empire and who is, I believe, consultant to the Bank of England, puts in a wand-waving critique of Marxism so far below that of Lindsay and of Joseph that one wonders if it could have been written in the same country. If his ideas for the Bank of England are as competent as those on Marxism the "old lady," as the bank is called, is in for a really bad time.

Clay says that Marx defines labor by duration and that he accounts any labor as unskilled average labor, as simple abstract labor. Why, then, says Clay, do we credit an hour's work of a cotton weaver to be two and a half times that of a farm laborer?

The question here is answered as was the celebrated one of King Charles II: "Why does a dead herring weigh more than a live one?" The answer is, "It doesn't."

The wages of agricultural labor in Norfolk, England, in 1937 were about 70 per cent of that of weavers in Lancashire, in the same country, and the difference is explained by subsistence, that is,

by differences of cottage rents, and the right to do a bit of truck farming on one's own account, thus making potatoes and vegetables cheaper. More than that, unemployment, by reason of crises, was more of a factor in the cotton industry. When one compares this kind of flippant argument with the careful American wages studies of Paul H. Douglas, the superiority of science over café wit becomes apparent.

Clay then brings out the old war-horse that the way in which we proportion socially necessary labor to value is in the market and the rate at which it exchanges is its value, so that value depends on value (see the much more refined objection of Joseph).

But Clay's greatest offering is that the difference between the utility of a tub and a teapot is greater than that between a carpenter's and a potter's work, hence that utility is at least as good a basis as labor-hours. When it is recalled that Marx agreed in his *first few pages* that (*a*) all utilities are so different as to be incommensurable, and (*b*) concrete labor was as different as the utilities it produced, and that for these two reasons we *look for another source of value,* we must put the distinguished economist of the Bank of England at the bottom of the class.

Sidney and Beatrice Webb

It is a pleasure to turn to the two veteran Fabians, whose critiques are never made without a thorough knowledge of their subject. In their remarkable *History of Trade Unionism* the Webbs indirectly counter Marxian ideas as a socialist basis.

They reject the notion that labor is the sole creator of value. They justify this by the notion that economic "rent" is the foundation of a collective economy. Here they are the English equivalents of Rodbertus,[8] except that they do not accept his theory of the primacy of labor. For them the differential rent of land, above the worst soil, is a pure appropriation. This notion is the reverse of Marx's, who holds that pure appropriation (absolute rent of land) is what can be commanded by the worst soil.

The Webbs continue. A worker uses "marginal tools," that is, the minimum barely required to make his subsistence, hence the

[8] See chapter on Sources of Marxian Economic Theory.

reward of the use of any tools above that reward is *interest,* a differential rent for superior productivity. This inheres unjustly to the capitalist. The rent of ability is the third rent (derived from Alfred Marshall's *Principles of Economics*).

In their *Problems of Modern Industry* (1898) the Webbs state that wages must be retained under State Socialism. Socialism must be a philosophy not for the working class but for the community. Socialism is gaining everywhere, more municipal and government functions occur, so does regulation. A larger part of income inheres to the state.

The class struggle does not explain this evolution; it is social and takes place in a steadily gaining tendency under capitalism. Hence democratic, peaceful gradualism is the path of economic development, and not the convulsive class struggles pictured by Marxian theory.

The Webbs, and their disciple, Bernard Shaw, as well as John A. Hobson and other Fabians and reformists, thus are based on Ricardo's theory of differential rent and Marshall's ideas of quasi-rents. Unfortunately both Alfred Marshall and F. Y. Edgeworth, the leaders of the Cambridge school, have vigorously attacked the mathematics of Hobson and the Fabians. Hobson's hypothesis that crises are determined by savings being put into means of production instead of into means of consumption is pretty much the motor of the Fabian theory.

The difficulty here is in the theory of interest. For an answer to the simple idea of the Webbs, the review of all productivity theories of interest in Böhm-Bawerk's *Capital and Interest* is recommended. With that rebuttal, the Webbs and Hobson go out, and with their theory of productive differentials goes their hope of analyzing political economy outside of class relationship in the production process.

John Strachey

Strachey is a Marxist. His *Theory and Practise of Socialism* and his *Nature of Capitalist Crisis* are the most widely read Marxian studies in the British Empire, and perhaps in the United States. Not that he has escaped charges of heterodoxy from the more rigid

Marxists; he has had his share of adverse criticism from their experts. But he believes himself to be a rigorous Marxian, and so his studies present a serious interest, as non-German or Russian pure theory, is rather rare.

Strachey's Review

He begins by regretting that there is no Marxian survey of bourgeois economics as a totality. Since the *Theorien über der Mehrwert,* which dissected the body of economic doctrine until Marx's time, no complete survey is available, except perhaps Dobb's *Introduction to Economics.*

(*a*) Fortunately the Austrian theory of a schedule of wants is not much held today. (It certainly is, in America. Strachey must be speaking of England.) It is argued by critics that Marxism is not significant, for in the Marxian theory it is only labor that is well-directed, that turns out values, and even that value does not enable us to forecast prices. But the character of labor, whether useful or not, is determined by price. Falling prices warn us that we have all the wheat, say, that is required, and that labor-time should be devoted to something else.

(*b*) You sell *labor* (dead, or completed, labor) *when you sell a commodity,* but you sell labor-power for potential transformation into a commodity to be made to sell. Capitalists, therefore, are persons that sell dead labor, workers persons that sell living labor-power. But a worker too can sell labor, if he is a self-employer, as a baker selling the bread he makes. It is class relations that makes the distinction of labor and labor-power a significant distinction instead of a verbal difference.

(*c*) As to the widespread "technocratic" notion that automatic machinery and the "selective eye" of the photo-electric cell have superseded labor, the fact remains that this no more changes the problem than did the invention of the steam engine as against the horse. For until machines build themselves and make their own raw materials and reproduce themselves, the relation of labor to production remains unchanged. They would also have to transport themselves and thus complete their supersession of labor. These Aladdin's-lamp concepts have no place in economic science.

Marx predicted torrents of wealth, once man was liberated from the restrictions on production caused by class division of society and the consequent limitation of investment to profits and of wages by exploitation. Yet today the "social credit" critics have the "crust" to say that Marxian analysis was valid only for an epoch of scarcity, and that today, for an economy of abundance, only changes in credit structure are required. What Marx really holds is that wealth is constantly increasing but value for each unit is being steadily cut down.[9]

(*d*) Lindsay, Hook, and Postgate, three critics of Marx, are assailed by Strachey. Lindsay asks that Marxism should forecast price for any given commodity on the basis of the actual labor-time put into it; Hook opposes the labor theory of value because it is not an instrument of predictions that other theories cannot do as well; and Postgate regards the price-of-production concept as a departure. Postgate is the opposite of most critics of the concept: they oppose it because it is true but contradicts what they think is the explanation of value in Volume I. As to Lindsay, he does not understand the function of the value theory in Volume I; value is true for the social mass of commodities, and price alone is relevant for any trade. As to Hook's objections, look at the record! Marx by the use of his instrument predicted the composition of capital, concentration, centralization, nature of crises, etc., and what on earth did all the classical economists from Jevons down to Taussig ever predict that was worth anything, on the basis of their science? The value concept of Marx alone forecasts.[10]

[9] The opposite rebuke to Marxians is made by Werner Sombart. He holds that the great increase of production in the nineteenth century is a swindle; that it relies on foolish societies stripping the coal mines and oil wells, etc., secreted for geological epochs, and utilizing them by squandering the heritage of æons in a few hundred years. Socialism lies—there can be no permanent increase in welfare. Rather we are likely to become so poor as to revert to a new barbarism when, like wicked children, we will have eaten up all the jam in the pantry and discover we were not so clever after all, and we would have been better off without technicians.

[10] Some bourgeois economists would accept the challenge of forecasting. For example, see H. L. Moore's ambitious mathematical effort to forecast the yield and price of cotton (New York, 1916).

(*e*) Strachey seeks to solve the old question: If a capitalist makes a surplus-value without reference to the labor he employs, bow does each capitalist contribute and yet survive? For example, a man who employs 1,000 workers might make less than one who employs 100, provided total capital investment were less. Exactly how does he contribute in the price process to the pool of surplus-value? Strachey argues that the question of value and therefore of surplus-value applies only to sum totals. Strachey agrees with Böhm-Bawerk that for specific goods, supply and demand is needed. Marx was interested in the motion of the system as a historic whole; the bourgeoisie and their professors in specific acts of exchange. This theory of Strachey approaches close to the concordance concepts of Emil Lederer and Tugan-Baranowski.

(*f*) It was the everlasting tendency of capital to produce less profits that produced capitalist successes. Driven by this frantic demon, which had to be exorcised, the capitalist multiplied inventions and increased constant capital and so built up our gigantic apparatus. This primitive drive has served its purpose; this is now over. The counteracting tendency is to exploit each laborer far more intensively; production per man-hour has risen steeply in America in the last two decades and very much in all other countries.[11]

(*g*) The theory of crises is specially illustrated. Wages are so low *relatively* during a boom that they cause a glut and so high *absolutely* that they diminish accumulation. Capital must produce more than a given amount of value per dollar of invested capital, as otherwise the capitalist's share will also be reduced.

(*h*) The value of constant capital does not increase as much as its volume. That is a capitalist advantage. Another is that imports, by reducing the cost of means of subsistence, increase profits. But above all, capitalists try to sink wages below value (as in Germany) and take in profits from foreign investments to make up for strain at home.

(*i*) Strachey has a population theory: soon there will be no new

[11] In a formal sense (without Marx's analysis), John Stuart Mill considered the tendency of profits to fall to a minimum as the basic law of capitalist economics (1847).

labor to exploit because of the collapse of the birth rate, therefore capital must seek to tap ever-new sources of exploitable labor abroad.

(*j*) Another method of restoring capitalist relations is to write down constant capital. The greatest writedown of constant capital in the annals of man took place in the 90 per cent fall in share values in the United States from 1929 to 1932. It was the swiftest reduction in value of constant capital ever known. Capitalist profit rate is then renewed on a lower basis and worked on lower wages. This is a reiteration of the barroom wisdom of 1930 that when a nickel again looked like a cartwheel men would get the sniff of money in their nostrils and race like thoroughbreds for a small profit.

(*k*) Another peculiarity of the present epoch is that it actually pays capitalists to *refrain from accumulation*. Strachey further holds that during the 1923 boom variable capital fell greatly with reference to constant capital, but that the rate of surplus-value did not increase enough to compensate investment of constant capital, owing to higher real wages.

(*l*) Strachey considers 1914 as the watershed of capitalist history. If the rate of development from 1860 to 1913 had continued, then in 1933 the wealth of the world would have been twice what it was. The general crisis of capitalism has begun. That crisis was not due to the war, for the war was a function of the general crisis, as Fascism is today. Here Strachey sets himself squarely with the analyses of Stalin and Dimitroff.

(*m*) He is pungent and just on social credit. They talk of the lack of buying power (that is, Major Douglas and his followers, the Social Credit school) for consumers' goods, but more than 91 per cent of production is concerned with producers' goods. As a matter of fact, Strachey says rightly, Marx anticipated the whole "social credit" thinking and refuted it in Volume II, p. 457 of *Capital,* in analyzing J. B. Say's theory of copious goods.

(*n*) Strachey also counters the notion of J. A. Hobson that savings push down the price of consumers' goods below the cost of production. Hobson argues that only a steady, controlled, compensatory inflation can remedy this. Strachey agrees that Hobson would be right if he spoke of hoarding, but not with regard to investment, whose one object is to lower costs. As to the com-

pensated price theory, such as that maintained by Irving Fisher, as a panacea, Strachey rightly calls attention to the fact that the price level of commodities was rarely more stable than from 1923 to 1929 during the greatest speculative orgy in decades.

(*o*) As to the special income of the professional classes, these are a function of profits. A distinguished specialist gets 500 guineas ($2,500) for an operation only when there are profits to pay him out of. In a depression the rich tell him to whistle for their lost appendix.

Comment on Strachey

It is hard to place Strachey's contributions in the arcana of Marxian science. If the author may be permitted a personal appraisal, they rank as quite unsatisfactory, despite a native talent for pedagogy and popularization and great flashes of insight and a high sincerity and intelligence. But there are doubts that come with nearly every proposition.

(*a*) For example, he states that for specific goods he agrees with Böhm-Bawerk that supply and demand govern, but not for the social total of value. But how is this possible? The sum total of prices, however arrived at, must coincide with the sum total of values, given a money expression as the universal equivalent. Values, says Marx, are manifested in the useful body of other commodities than the one offered. Money is a universal expression of the general equivalent. The sum total of value is realized in a general equivalent; that is, its sum total manifestation. The meaningless subjective theory of Böhm-Bawerk explains nothing, for it has no referent.

By ignoring the compensatory relation in prices, that make their total congruent with total value; by ignoring the fact that in the last instance value is the regulator, that hours of labor are the efficient cause of changes of investment, Strachey allows of a concordance without purpose. It is a disastrous theoretical concession.

If he means to say that the apparent reason for the deviation of the price of any given commodity from its aliquot part of total value, takes on the form of haggling in the market, then he is right, but that is not what Böhm-Bawerk says. The form by which value is

discovered as a total is the haggling around every price as a unit, but there is a law that governs that haggling, and that is the Marxian law of reality behind phenomenal appearance.

(*b*) His gratuitous statement that the drive of the tendential rate of profit is now over, is unprovable, and theoretically inadmissible. It is identical with the theory of Trotsky, an economist whose polities are anathema to Strachey. Lenin distinctly held that during the most degenerate phase of capitalism you might have gains in production, *even as a total,* and that the catastrophe prophets were baying at the moon. What Lenin did say was that this gain would be much smaller than before, tend to get less, and that it would be based on more uneven developments; some countries going ahead, others falling back, and that the reason for this uneven development would be in new factors, to some extent superimposed on the older factors, such as Fascism, adventurism, devaluation, dumping, quotas, subsidies, etc. This wooden theory may lead Strachey into curious by-paths, which he obviously wishes to avoid.

(*c*) As to his statement that a reduction of value produced per capital invested would also injure the capitalist, this can have objective meaning only because the minimum means of subsistence needs of the workers are irreducible. Otherwise the capitalist could have an "out."

(*d*) That imports are a means of increasing profits by lowering food costs is really much too unilateral and is against experience. We are in an age of imperialism, when the need to retain income from abroad and to compete in a military sense are as important as other aspects of capitalism.

With the tendency to agricultural protectionism initiated by Bismarck in Germany and Méline in France; with the development of autarchy and quotas for food, with the destruction of cheap coffee and beef in the tropics so as to support "values," it is clear that great limitations have to be set on the mechanical idea that "reducing means of subsistence by food imports," and hence reducing wages, is a directive move of capitalism. Here as at dozens of points in his Marxian study, one gets the impression that Strachey is a prize scholar, who has learned the answers *seriatim,* and is not a creative interpreter of Marxism, in a total and changing setting.

(*e*) His theory of population is altogether un-Marxian. For it is a simple fact that the birth rate has been declining ever since the 1880's, and the fewer babies we have the more people are permanently out of a job. The industrial reserve army was small when Marx predicted its dread future: as the perambulators became empty the breadlines increased.

Finally, when ten million young men were slaughtered, and thirty million crippled, and the influenza carried off between 1 and 2 per cent of the human race, the general crisis of capitalism has produced an unemployment problem never seen before and one reducible only by charity or slavery, in "labor camps" or the army, or by some species of "dole."

The destruction of labor-power has not led to a need for exploiting all the labor at home and the drive toward exploiting labor abroad needs no birth rate studies of this type.

Marx's law of population marks his theoretical superiority even to a Charles Darwin and a Karl Pearson, and Strachey ought to understand it better than he does. It is the core of Marx's analysis of the class struggle over wages.

(*f*) As to the writedown of share values being the greatest writedown of constant capital, etc., one is a bit taken aback. The value of constant capital is its cost of reproduction in labor-time and there was no such decline in that respect as the share capital revealed. The price of shares is their anticipated possibility of cashing in surplus-value in the future. That is different from the value of constant capital. It has an analogy with it: it is interpenetrated with it, but it is not *it*. Identity is not conformity.

That the capitalist finds it more profitable to refrain from accumulation, presumably means that he hoards. For any other meaning would be so anti-Marxian that it cannot be believed Strachey holds it. He probably means that the capitalist would like to produce at a profit, but will not do so at a loss. Well, this is no more a feature of present crises than of that of 1837.

(*g*) As to the statement that the ratio of constant capital to variable rose in 1923-1929 (it seems to have been an investment boom) but that the surplus-value rate did not rise, because real wages rose, this seems paradoxical. Also that wages rise too slowly, relatively,

during a boom, so that there is a glut, and yet too high absolutely, so that there is a diminished accumulation—this is strange theory.

The rate of surplus-value is certainly calculated otherwise by Varga in his *Economics of Stabilization*.

The divorce between glut and accumulation has no precedent in the Marxist analysis of crises. Strachey means something else: what be says is not faithful to his real thinking. It is rather a pity, for in some of his recent coquetting with purchasing-power expedients, his theoretical shortcomings have led him into greater deviations from a complete formulation. The critique of Marxian theory, as attempted by the Austrians, for example, is entirely in order, or even that of the revisionists, but the acceptance of its external doctrines in the Stracheyite form may lead to a reduction of the level of discussion itself.

37

American Criticism of Marxism

Marx has met with a paucity of criticism in America. The diligent hunter of Marxist foes may traverse volumes of the *American Economic Review, The Quarterly Journal of Economics,* the *Political Science Quarterly,* or similar periodicals and see a critique here and there, but there are dozens of articles on concepts of risk—like that of Knight, say—to a study of the Marxist doctrine that has moved millions of men to risk their lives. By a strange irony, the most important American critic is a Canadian, O. D. Skelton.

Skelton. Socialism a Critical Analysis

Skelton repeats Böhm-Bawerk's dictum that Marx eliminates, by his method of averaging, precisely those variations that form the subject of investigation. His reasoning thus turns in a circle. How do you explain value? By the totality of value. And how does that explain the value we set out to discover? It doesn't, but they all "cancel out each other." Marx dodges the entire issue of exchange-value.

As to the total labor-power of society; what does Marx mean by normal labor? Marx speaks of labor socially necessary, on the *average,* then of the *minimum* time in which a commodity can be produced as determining value. Well, which is it, *average of all labor or minimum of all labor?*

Half a dozen hod-carriers could not reproduce the David of Michelangelo, nor half a dozen roustabouts one fine jeweler's work. There surely are differences of quality as well as of quantity in labor and these differences are never reducible to quantity.

The ratio of skilled labor to unskilled is fixed by a "social process" that goes on behind the backs of labor, says Marx. Well, if that is true, there are relations behind labor that determine value, and

yet we are told that it is the labor that determines value—and if we ask how a process outside of labor determines labor-value we are again put back to the valuation in the market.

Skelton accepts Böhm-Bawerk's theory that values grow not out of the past but out of the future. They are not forged like iron, but they arise subsequently in the market. It is hoped that the product of labor will acquire a value; it does not have a value. Skelton then quotes Untermann in his *Marxian Economics,* to the effect that labor-value has only a future validity (which statement Skelton misreads, because of Untermann's Germanic idiom).

Not only does Marx make the error that value arises in production, but also the untenable assumption, like all productivity theories, that it is possible to value the contribution of any one factor, labor, for instance, by *isolating* it. Neither in technique nor in value can an isolated factor's imputation be discovered. (Here Skelton parts company not only with Marx but with nearly everybody else—Clark, Marshall, etc.)

Skelton states that he agrees with Cannan that if we rewarded the man who discovered each central invention (each based on the other), the overlapping rewards would leave no money to go round. Clark gets out of the difficulty by limiting imputation to the present stream of production.

Marx neglects the service of the *entrepreneur.*[1] On his analogy that co-operation in manufacture is like a squadron of cavalry (more than the sum of its horsemen acting alone), is there no place for a Ney or a Sheridan? Even if management is deflected from production alone, by the need for its exploiting labor as well, is there *no* service it renders production? If there is *any,* should this not be rewarded? Would not socialism itself produce more or less according to quality of management?

As to surplus-value: If co-operation is a force above the sum of individual labors, then surplus-value is no longer the difference between the means of subsistence for the individual and his product but also between the value of individual labor-power and collective

[1] The old banker's epigram comes to mind: "What is an *entrepreneur*? He is the man that furnishes the experience and the capitalist the money. After six months he has the money and the capitalist the experience."

labor-power; which? For then there is some surplus-value not taken from labor.

Another paradox: Either the subsistence level determines wages or the level fixed by the competition of the industrial reserve army determines wages. Two unreconciled wage doctrines are given by Marx.

If it is asserted, says Skelton, that there is a causal connection between the fluctuations of the industrial reserve army and the fluctuations of the standard of living, there is a profound logical contradiction.

For Marx assumes that the proof of his theory of surplus-value is furnished by the notion of the industrial reserve army; it is the coping stone of a theory built up stone by stone out of surplus-value. But, on the other hand, the surplus-value theory is assumed in the proof of the surplus-value theory itself, since unless there is a competition in labor that forces it to a minimum level that allows of profit, how explain profit?

(Presumably what Skelton means is that the industrial reserve army is created by the intense competition brought about by the effect on prices of the drive for relative surplus-value, and that the end of this process is centralization, which is accompanied by misery at the other pole. On the other hand, the depression of wages to subsistence-levels is a factor in shaping surplus-value. Which horn of the dilemma does Marx want?)

On the contradiction between production and consumption Skelton asks: Could this not be overcome even if wages fell as a share of the total production by an expenditure of the rich on conspicuous waste? Or merely by the *quantity* of the production of goods?

Had Marx concentrated on the anarchial character of production, or rather the mis-production of certain goods, he would have had a much more tenable theory than total overproduction against limited consumers' demand, due to class relations in production. Skelton rejects the department-of-production theory (producers' vs. consumers' goods) for the scattered segments or the misdeveloped special trades theory.

Marxian Commentary on Skelton

A great many of these objections have been met and discussed elsewhere. The averaging objection was commented on with Böhm-Bawerk. As to minimum and average, Marx does not use the terms to complement each other. The minimum is taken as a basis for calculation, that is, the *social minimum,* which is the average of the lower great mass of ordinary labor. It has an average of that great minimum group and from it we reckon hours of labor and skilled labor as multiples of that labor-time.

Let us say there are forty million laborers in the United States. Of these, twenty-five millions are pretty much minimum laborers, that is, do common work, with little skill. The average of this minimum group is a social basis for calculation.

As to the quality of labor, apart from time; the jeweler is equated as to time,[2] and Michelangelo is not in capitalism. He does not produce for an employer for profit; the primitive tools he uses are personal. He sells *labor* and not *labor-power;* Marx's theory of value is based on the sale of labor-power.

Once that distinction is grasped, Michelangelo can take up his chisel and Rembrandt his brush and the two standbys leave the 160 million skilled and unskilled workers in European and American industry to discover the differences of value due to labor-power as a social commodity. Useful as Michelangelo was to Pope Julius, and Rembrandt to Dutch burghers, their utility was as naught to those as compared to economic critics of Marx. Really, without the two of them, economic theory would be dull.

The objection of the value of unskilled labor and skilled labor being fixed in the market was answered as to Joseph and Lindsay. That values arise in the future is true, if one means that value is realized in the future, and if there is no realization there is no value to express. But what value? What quantity of value is expressed in the future? That is the issue. Marx says that socially it is the labor-time incorporated into commodities which, after they are produced, are valued at around that level, as a whole. The notion of futuriry has not the signifieance Skelton assumes.

[2] This objection is dealt with in great detail in the original explanation of value theory in this book.

If no imputation can be made in economics, then what are we all talking about? Then neither rent nor interest nor wages are meaningful. We get down to empirical descriptions. If that is the case how does Skelton ask that the *entrepreneur* be rewarded? Actually Marx does not isolate labor as a *factor* increasing value, labor-time *is* value; there are no factors; we are speaking of an identity, not an isolation. The objection is not relevant.

As to the services of the *entrepreneur:* Good, leave out Marx's dictum that he produces nothing. Suppose social productivity under socialism is, say 60 per cent, higher than under capitalism. The means of production increase merely by reason of socialistic organization. Are not the *entrepreneurs* to be charged with that social decrement as well as credited with an increment? Even were it true that management was a factor in production, if it contributed 40, and by reason of its class limitations *sabotaged* 60, then it owes 20 and has no reward coming to it. And this is just the issue! If management is to justify itself, it must be on a production basis.

According to Marx it once did so "justify" itself, for there was no better alternative management then possible, and now it does not. The question is not one of "justice" but of historic maturity. In mature capitalism, he holds, it is merely a mode of better exploiting labor without relation to production for use.

As to the theory that there is a contradiction in the co-operation theory, that is a figment of Skelton's imagination. The labor-power sold by labor as a class is paid for at its cost of reproduction, like any commodity. The surplus-value above that production inheres to capital. What has this theory of surplus-value to do with labor as an individual? It is the laborer working in a co-operative society, as given, that yields the difference above reproduction of his power, however that difference arises, to the capitalist. The card-shuffling of individual labor being individually exploited, and then of social labor, and the idea of a contradiction, was due to the poker pack used by Skelton only.

The paradox of surplus-value and the industrial reserve army is no paradox. The surplus-value theory does not imply the industrial reserve army. It assumes that the laborer is helpless, that he is a seller only of labor-power. Long before there was mass unem-

ployment, when the demand for laborers was so great that the land enclosures were hurried through so as to assure a supply, wages were at an animal level. It is a class question.

Now as to the second contradiction, that wages are determined either by the means of subsistence or by the industrial reserve army, there is a clarification given in Marx's *Capital*. The means of subsistence determine in any given period and country the *value* of labor-power; the industrial reserve army is the variable that is used by the capitalists as a wedge to obtain labor for less than *value*, and also as a driving force with which they hope permanently to *alter* that value. Marx does not fit his theories into a Procrustean bed; he is speaking of laws of motion.

As to the escape from the paradox of production and consumption by waste, the answer is, when has that failed? According to the exaggerated, but entertaining, hypothesis of Sombart, capitalism arose on and has since been based on war, waste, and luxury, and yet it has crises! As to increase of quantity of production, that is just where the trouble begins.

The disproportion theory of Skelton has been dealt with at great length in the exposition of Marxian doctrine (section on crises).

Even Marxists, though, would admit that Skelton's book is lively and thought-provoking and well worth close study.

Thorstein Veblen (1857-1929)

This most unorthodox American economist is not so much a critic as an excursionist about Marxism. A quick glance at his two enduring books, *The Theory of Business Enterprise* and *The Theory of the Leisure Class*, would give the superficial idea that he was a pseudo-Marxist. Despite his quaint reference to the special propensities of the "dolicho-blond," etc., his insistence on the pecuniary motives of business and his genuine hatred of the entire social appanages of "taste" and "refinement" and "culture" and his consciousness of their muddy origins, make him sympathetic to the Marxians. But his economic theory was poles apart from Marx's, albeit he is the American economist who, with Seligman, has best understood Marx's work.

Veblen is a Kantian, an idealist. As such he opposes Hegelian-

ism and its illegitimate child, Marxism. He objects violently to the antithesis of capitalist and proletariat in purely economic terms, with no reference to their social and psychological aspects. To him the method of Marx is both too simple and too abstract. He, as the leader of the Institutional School, rejected the filiation of institutions and ideas as given by Engels.

Then too, he is conservative in some matters. For him the profits of high finance are, in some regards, "the usufruct of industrial technique." But, strangely enough, Veblen is opposed to the "price system." He is enmeshed in all the technocratic romance, for he looks on human labor as a stopgap until replaced by all sorts of automatic H. G. Wells and Jules Verne contraptions. He is a great partisan of engineers and apparently regards common labor as the last relic of a crude pre-mechanical technique. In fact, he is the economist of the romances of H. G. Wells, like *The Shape of Things to Come.* It is surprising that a still more violent futurist designer, J. B. S. Haldane of *Daedalus* fame, has joined the Marxians.

Veblen is at one with Marx in assailing such hedonistic conceptions as the subjective valuation theories of the Austrians. He believes competition to be inadequate. Marxism can be discussed, he holds, only as a totality. To criticize it in terms of one feature (as Böhm-Bawerk on value), is like discussing a solid two-dimensionally. *No system of political economy is more logical than that of Marx.* On Neo-Hegelian grounds, that value equals social labor-cost is self-evident, but it has no force in any other light. (And with this Marx would undoubtedly concur.)

Sachs. "Basic Principles of Scientific Socialism"

Sachs attacks the Austrian school because their analysis of demand applies only to consumption goods. How do they explain production goods, with which the great mass of capitalist production is concerned? If you say that they are valued indirectly by their products, how do I know these will ever be demanded when I make my elaborate investment in production goods?

And in any case, on their hypothesis, why should coats cost more than shoes? Why shouldn't everyone want to have as many coats

as shoes? The demand is as great. Why is anything "scarcer" than anything else, in goods capable of being manufactured by the million? Why do not all goods get to saturation point at the same speed? Because of the differing quantities of labor required, which is not a psychological but a real limitation. And this is Marxism.

Sachs then tries a comprehensive theory of value. Society requires a million coats that cost ten hours each. Eleven million hours are put into making coats. These extra hours were wasted and prices fall. Thus surplus-value may never be realized in this case. Price is regulated by the aggregate quantity of social labor that society allots to products divided by the number of products that are produced. In this manner monopolies and rarities are covered, as well as common commodities.

Sachs's theory is a Marxian effort a little too ambitious for Marx himself. Surely there is an elasticity of prices! For example, we know that when the wheat crop is merely 10 per cent short, prices do not jump merely a tenth, but often a half. Each commodity has peculiarities of price, and these are not immediately referable to arithmetical changes in labor-value, nor need they be. To ignore elasticity of prices is to simplify the Marxian value-price equation unduly.

A deeper objection is the attempt to cover monopoly and rarities equally by the time society allots. For rarities one often has to face the fact that their production is not by social labor, or by the sale of labor-power, and they are not necessarily referable (although much more usually than is thought) to Marxian value. As to monopolies, it is not social allocation that fixes their labor-hours in the same sense as that assimilated to competition, as their ability to prevent their prices from falling in 1929-1933 by clogging elasticity of prices and "natural" remedies to the crisis, proves. Sachs is much too formal for a Marxian, but his book is excellent, and he has a really original and profound mode of thinking. (His materialistic section is simple and brilliant.)

Minor American Critics of Marxism

In assigning a minor role to the following critics, no disparagement is intended to their talents nor to the quality of their criticism;

reference is rather to the small range of their economic objections. Some of the economists enumerated here are, in their field, the foremost names, but they won their spurs in other battles.

Prof. F. W. Taussig. "Principles of Economics"

In a rather long study of socialism Taussig makes two points: one that the process of investment by the well-to-do creates consuming power that is turned over to labor, subject to periodical readjustments of overproduction. (But why is there overproduction, if investment is the continuous source of corresponding consuming power in the workers?)

Marx spoke of the reserve army of the unemployed; no, lowered wages are due to ordinary labor competition, and the reserve army of the unemployed is a rectifying agency, since it lowers wages and enables workers thus to be re-employed.

Prof. E. R. A. Seligman. "Principles of Economics"

For a most distinguished student of Marxism, his economic references are slight. He simply rebukes Marx with identifying manual labor with labor as an economic category. But his tribute to Marx written elsewhere is his estimate: "Perhaps, with the exception of Ricardo, there has been no more original . . . no more powerful intellect, in the entire history of economic science."

Lewis Corey. "The Decline of American Capitalism"

This is the most ambitious attempt to integrate the contemporary American scene into Marxist theory. Corey's special contribution is that the long-term factors of recovery in America, that have carried its economy into new high levels after its many disasters, are now no longer operative.

These forces were primarily industrialization of new regions, development of altogether new industries, and mechanization of older industries. Today we have saturation of capital plant, overdevelopment of productive plant relative to its domestic market, export of capital (now congealed), and imperialism. This is, in effect, related to the thesis of Rosa Luxemburg that capitalism seeks its issue only by penetrating noncapitalist or precapitalist areas.

Corey does not endorse, explicitly at least, Lenin's concept of the primacy of monopoly capital as itself the efficient cause of imperialism. Nor does he seem to hold that accumulation is effected by way of the ordinary exchange of commodities by capitalists within any given area. He does not assign a special technique to industrial monopoly, fused with finance monopoly, as willing to subjugate other countries, the fully capitalist ones as well as those that still leave scope for some primitive accumulation. For Corey, some adumbration of imperialism is the permanent characteristic of American economy; for his Leninist critics it is a special stage, arising out of the centralization due to relative surplus-value needs, but a special stage, nevertheless. When he states that the law of increasing misery for the workers is irrelevant to the question of high or low wages, it is difficult, from his text, to make out his exact theory. The general Marxian assumption would be that while the efforts of labor unions to counter capitalist efforts to sink wages below value can succeed, the accumulation needs of capital posit the increasing misery of the workers as a permanent tendency, to which strikes, etc., are a forced defense move. But the attack is that of accumulation and is a necessary permanent offensive of the capitalists.

Paul H. Douglas, in "Economic Essays in Honor of Gustav Cassel" (1933)

The most distinguished American wages theoretician thinks that the supply of capital, in excess of population growth, has been responsible for an advance in the material standard of living of the workers (in large degree). A stationary population will increase the relative growth of capital still further. *Barring wars and catastrophes,* real wages should advance. Even after population reaches a plateau, capital should advance for some time by net increments.

To Marxians, of course, wars and catastrophes are not *barred,* they are given in the system; they are not accidents but a function of capital difficulties. Their death and slavery costs are real deductions from wages. Barring wars and catastropbes to them is like saying that barring senile diseases and chances of death, we ought to live to be a hundred. So we ought.

Howard Scott. Technocracy

This modish intellectual fashion is now quite neglected, but its ways of thinking are still common enough.

The technocrats say that Marx is superseded because man-hours have given way to kilowatt-hours, and that we should count not by the time of living labor, as Marx contends, but by *ergs* or some other physical unit. The present system preserves a price system derived from exchanging manual-labor-counted goods.

To the Marxians, apart from the absurdity of kilowatt-hours being self-generating, etc., the technocrats are like any other currency cranks who look for economic difficulties in the sphere of circulation as primary. For Marxists, price is a derivation of value-expression in exchange, and this necessarily includes surplus-value. *Not price but value must be abolished.*

Technocracy, too, ignores the law of the position of the development of productive forces to production relations. Unless this is borne in mind, all distribution theories fall into the trap that in the sphere of production use is the object of fabrication. In exposing any price theory, however disguised in engineering language, the fetichism of commodities must be exposed, for it covers up surplus-values.

Lewis H. Haney. "History of Economic Thought"

Haney asks why, if use is no criterion of production, as Marx contends, some men grow cotton, say, rather than linen? Specific utility must be the function of goods. But this is affirmed equally in the first chapter of *Capital.*

The prices of *particular* goods fall and rise, even according to Marx, and these prices can be altered by credit. But credit, says Haney, is a factor in time. Thus time is also a factor in value, along with labor. This is like Böhm-Bawerk's theory of "other things being equal" as a refutation of Marx, and is subject to the same observations.

Haney sums up Marx: "In learning, philosophic acumen and literary power, he is second to no economist of the Nineteenth Century. He seems to have been master of the whole range of economic literature, and wielded it with a skill no less masterly . . .

his strength lay in knowledge of technical and economic development and marvelous insight into tendencies in social evolution determined by technical and economic factors. Whether his theories are right or wrong, they have suggested questions that will demand the attention of economists for a long time."

John Dewey

Among the scattered observations of this philosopher are a few economic saws, of no particular merit nor a credit to his standing. It must be his distinction in other fields that causes his ideas to be so much noted.

He points out, for example, that Marx had *no conception* of the way in which modern industries could use new scientific discoveries (!), or create new wants and occupations. Nor did he credit the employing class with *enough intelligence* to see that production and profits could be maintained only by high wages and sustained purchasing power.

Apparently we do not read the newspapers carefully, for we think that we are always reading that the intelligent employers fight strikes, unionization, battles for higher pay, and struggle before the labor relations board against minimum wages, etc. But then we are thinking of Ford and Girdler and other professors instead of an eminent employer like John Dewey.

Max Eastman. "Marx and Lenin, the Science of Revolution" (New York, 1927)

The economic aspects of this well-known controversialist concern the inefficiency of the value concept of Marx for socialism, which, it appears, is a science of engineering based on empirical observations. In *Capital* Marx offers no proof that capitalism passes into its negation, and this type of statement is a relic of religious metaphysics, as is the whole categorical economic-historic system of Marx.

Had Marx been as up-to-date as advanced Westerners, not as beclouded Carlylean German professors, he would have been an empiricist (presumably like Mill, or a pragmatist like James, or an

instrumentalist like John Dewey), and understood the art of practical thinking.

His dialectical materialism assumes that Hegel knew all about mind, and it lives and dies with that assumption. (Apparently Freud is more significant than Marx, though that seems nowhere to be affirmed.)

It is interesting to note that this philosophic critic of Marxist economics is editor of an edition of extracts from *Capital,* done by Borchardt, in which the paging of the German edition is not even corrected for English and American readers. That is an empirical job.

Sidney Hook. "Towards the Understanding of Karl Marx" [a]

Professor Hook has gained distinction in university circles as the most learned exponent of Marxism. His philosophic eminence does not concern us here. Hook's economic contribution consists of a denial of the efficiency of the theory of value, exactly like Simkhovich and other revisionists. These all agree that Marx rises or falls by his analysis of the catastrophic potentialities of capitalism and not by the economic system he postulated with which to explore those possibilities. They view his system as given, in effect, in the *Communist Manifesto* of 1847-1848. They disregard the tremendous economic contributions from 1844 on, in practically all of which the later system of *Capital* is suggested and out of which only his later conclusions could possibly arise.

The pamphlets contemporary with the *Manifesto* are trumpets of surplus-value. As they have been gathered together in one volume (see Bibliography), this thesis can easily be verified.

Marx has a logical unity, and his complete opponents, like Turgeon and Böhm-Bawerk, are nearer the point than his "dissectors." Shakespeare's text can be disintegrated, but Marx's must be accepted or rejected as a system. Value is central.

Since Hook repudiates the economic system of Marx, and gives his relativism an interpretation it cannot stand (Marx was keenly aware, as Engels confirmed, that our successive approximations to truth are due to the divided organization of society at specific levels

[a] Hook has also studied the chain of ideas from Hegel to Marx.

of production), it is hard to say that he is a Marxian, though he belabors all those who deny him the appellation. Hook's activism, too, does not seem to be involved in the central thesis of Marxism of the unity of *true* theory and practice. Without that Marxism would sink into academic dogmatism on the one hand and nominalism on the other.

Rudas has attacked Hook because in his symposium on the *Meaning of Marx* (1934) he does not understand the synthesis, that labor transfers dead labor-value and creates new value in one and the same operation. This would, of course, arise out of Hook's refusal to aceept the concrete, abstract, use-value and value distinctions of Marx's economic system.

Hook asks, what are the specific mechanisms by which economic conditions affect classes, since individuals deviate from self-interest in many instances; asks how you measure the concept that economics governs in the last instance, and if man changes his nature how do we understand the past? He leaves room for contingency, insists on relative chance, and asks if the materialist interpretation of history is itself merely a transient phenomenon of class society? He rejects the copy theory that perception is a mirror of the real world, as given in the *Anti-Dühring*.

J. R. Commons

In the wealth of legal and labor history literature with which Professor Commons has enriched our knowledge, there is only one pertinent Marxian remark, that Marxian economies is obsolete beeause it related to an age of cut-throat competition and not to monopoly; the same view is affirmed by Maurice Williams, in his *Social Interpretation of History* (Brooklyn, 1920), in which be asserts that Marxism is concerned primarily with the individual producer.

Norman Thomas. "America's Way Out" (New York, 1931)

The socialist leader agrees that the *wise* use of eapital is productive, and so grants the *entrepreneur* thesis. The subsistence theory of wages is held to be refuted by its wide variations. Distribution adds to value. Thomas decidedly is not a Marxian. He is a re-

visionist, but even Bernstein would not have affirmed the last or the first of the three theories.

Emil Lederer

Although Emil Lederer is an ornament of German science, his recent activities entitle him to rank as American. He maintains that the Marxian concept of the labor market and of the consequent commodity character of labor-power, etc., may be brought into accord with the marginal utility hypothesis. Marginal economics may give the specific *mode of action*, the surplus-value being identified as a special situation in the labor market. Thus Marxism gives us the basic theory, marginal utility the manner in which underlying factors manifest themselves in our experience. This is an ingenious concordance theory, more plausible than Tugan-Baranowski, but subject to the same Marxian analysis.

Rubinow. "Was Marx Wrong?" (New York, 1914)

This was a controversial essay in reply to Simkhovich. Rubinow maintains that one commodity is not measurable as to labor-time. But skilled labor counts as more time, for therein time is a *subjective* measure of common valuation, for differing kinds of human effort. The mechanical measure of labor falls away, but it has class utility: "It is hard to prove any theory because of class bias involved."

In this controversy Boudin, too, endorsed Diehl's statement that value need not explain specific price. Kautsky too held that one cannot isolate the amount of labor in any single commodity. Marxian value arises from specific conditions of production and subjective value—as a relation of man to *things*, whether produced or not, throws no light on social conditions of production.

A. M. Bingham, Jr. "Man's Estate" (New York, 1939)

Examinations of the bases of Marxian economic theory are now rare events and the treatment in Bingham's book (the nub is pp. 260-282) has some original argumentation.

Bingham denies the notion that the exchange of two commodities requires a third common factor to explain the transaction. Both parties sought differing advantages in trading; hence the sign of

equality used by Marx is not required. Had he used some other shorthand that revealed the dynamic nature of the transaction, his entire problem of a third factor would vanish. For there is no equality, therefore no common factor to be isolated. Equality is in price, not value.

His next point is that Marx ignored the professions and was baffled by the "white-collar" worker. The merchant function also nonplussed Marx: in Volume II of *Capital* (page 157) storage adds to value, on page 165 it does not.

Marx must face the fact that half the working people are not value-creating. Where will they be in the class struggle?

If value is measured by abstract labor but the value of labor-power is based on maintenance (a variable depending on custom or on success in collective bargaining), then how can anyone differentiate with any accuracy the worker's share and surplus-value? Or how can one deduce any law of motion from their ratio, as both are indeterminates?

Even under socialism there may be a conflict between productive workers and the six or so groups who derive their living from the other producers, as foreshadowed in Marx. (Bingham must be referring to the *Gotha Program*.) If classes are based on value-production, Bingham infers, then the basis of class conflict remains.

Marxian accumulation theory is only half-true. The law of diminishing returns in most types of agriculture is a barrier to large-scale capitalist agriculture. Even in trade and industry and services, small-scale operation has survival value. Only 30 per cent of total economic activity is effected by "big business." Electricity has reduced large-scale industry. The middle class between plutocrats and industrial wage-earners has been enlarged. Bingham resumes the stake of the poor in capitalism; 5 million shareholders or 30 million savings bank depositors or 65 million policyholders. Control may rest in the "sixty families" but ownership is diluted.

Further, Marx gives no explanation of various automatic adjustments of the price and market mechanisms, especially those that restore equilibrium after instability. Further, Marx has no rigorous proof that unemployment must constantly rise. Nor can he demonstrate that the larger the investment in constant capital, the less in

variable. For the money laid out for means of production is not removed from circulation. It goes to living labor in the capital goods industries.

Further, Bingham "cannot help thinking" that despite Marx's refutation of underconsumptionism, the idea haunted him. Hence he had a mistaken theory concerning the whole of capital, even though when he came to Volume II of *Capital* he had to *admit* there was no necessary stoppage of the flow of money and goods. (This calls for a rebuke. To make an assumption concerning what a critic thinks an author ought to have had in mind, and then calmly transfer this intention as a fact, and then speak of the author's "admission," is a rhetorical dodge. It is careless but in less honest hands could be vicious.)

Bingham denies that the origin of crises is completed in Marxian terms; for him there are many factors in disequilibria. He challenges the law of the tendential fall in the rate of profit. There are two objections. First, it is counteracted by increasing the rate of exploitation. Marx gives no indication of what governs the rate of exploitation, or as to why it should not rise faster than the increased organic composition of capital. Secondly, the producers of constant capital are themselves making profits. Therefore, since we are speaking of the rate of profit for the capitalist class as a whole, neither the aggregate increase in roundabout costs, which must enrich some capitalists, nor interest charges, which must enrich others, can be taken into account, for Marx is seeking to describe a fall in the overall rate of profit.

There is no factual proof of a long-term fall in the rate of profit. The little evidence we have, though only indicative and not complete, indicates stability rather than decline. Nor does the fall in interest rates confirm Marx, for interest is only a part of profit, and that rate is not affected by the rate of exploitation but by the competition of loan capital.

The next contradiction alleged is that on the central question of merchant profits, Marx contradicts himself on pages 329-330 of Volume III of *Capital* and again on page 386. But even Engels had trouble with Marx's reasoning, for Marx was not skilled in computation and was greatly confused on this point.

From Marx, Bingham goes on to Lenin. The decline of foreign trade and foreign lending since 1929, and the rise of autarchy, indicates that the imperialist tendencies before 1914 are no longer descriptive. They may even be reversed. It is significant that the chief economic drives towards war—raw materials, land for surplus population, rounded resources, and self-sufficient economy—are wholly compatible with collective economies and do not relate to the dynamics of capitalism.

Bingham returns to Marx. Money and credit are the Marxian blind spots. A large part of investment comes from "new money," that is, bank credit. Public investment is financed by a direct creation of credit. Capital need no longer be formed by the accumulation of capital or surplus value!

Marx himself saw that investment could be financed out of credit (money capital), the "duplicate" of actual capital. He had to speak of fictitious and illusory capital in Volume III, pages 547-553, to save the logic of his previous analyses. But therewith his general law of accumulation is gone, for henceforth capital can be accumulated without impoverishing the worker or enriching the capitalist. Marx never goes further than the assertion that fictitious capital is merely a reflection of actual capital and referable to its laws, in *Capital* III, 559-580, or an anticipation of income in III, 549. Marx seemed aware of the difficulty, for he speaks of credit as outside the scope of his plan in III, 469 and 520-22. "But he had gone too far to turn back."

Notations. On the notion of equality in commodity exchange, Bingham offers no proof, since Marx assumes that an exchange advantages both sides in use-value and that the dynamics are in this exchange of utilities. The exchange of commodities, irrespective of utilities, is the field of political economy.

As to the fact that Marx did not fully comprehend the professions: rather his study of the displacement of machinery takes as a central theme that this displacement is compensated largely by clerical, merchandising and professional activities, sustained out of surplus-value. He gives the mechanism of the rise of these classes, in pure economic terms.

Why must there be a determinate ratio of variable capital and surplus-value? Why not a series of indeterminates, fluctuating around a given analytical set of *limits?* Marx is not additive: he is dynamic. The laws of motion are best ascertained from variables in action, not from rigid determinates.

On socialism, this objection shows that Bingham was not attentive on the philosophic foundations of value. Under capitalism one group of workers creates values, another does not. Under socialism, value is annihilated and all create use-values. Hence the conflict is a conflict of capitalism and of capitalism alone. As to the percentage of business done by big capital, if Bingham had added housework of isolated housewives, the percentage would sink still further. It is not the total economic activity that is in question; it is its directing and significant impact for accumulation, crisis, etc., that measures its effects on the life of man.

The other objections on agriculture and the diffusion of ownership have been treated elsewhere. That Marx does not explain the price and market mechanisms of restoring equilibrium is true—for a simple reason, that he denies equilibrium. For Marx there are various states of disequilibrium, some, like crises, sharp, others, like "booms," in which a disproportionate investment is creating deeper contradictions. Cycles are a series of manifestations of differing types of disproportions, due to the underlying class contradictions. He does, however give the mechanism of the restoration of constant capital investment, which is what Bingham probably means.

The argument that Marx ignored the investment in constant capital, as employing living labor, is amazing when one remembers that Marx's total schema of capital reproduction studies the interchange of these two departments as a necessarily integrated science.

On the theory of accumulation, Marx does state that the capitalist seeks to increase the rate of exploitation to counteract the tendential fall. The history of recent capitalism is a series of efforts to counteract this tendency, which is the force always pushing the capitalist on, even though it is also the force that leads him to utilize all the mechanisms that prevent its realization. Marx identifies not realized form but the foundations of the appearances contrary to such realizable form.

On the factual question of rate of profit, the decline in the rate of interest, practically secular, is a striking confirmation. The escape from this confirmation by saying that though interest is only a part of profit, yet it is not affected by the rate of exploitation which is the source of profit, is fanciful. To ascribe a low rate of interest to a surplus of loan-capital, without giving the economic basis of that surplus, is like the absurd physician in Molière who said that opium caused sleep because it has a dormitative faculty.

The Leninist answer to Bingham would probably be that the very success of Imperialism that led to the war of 1914 caused the defeated states to seek other means of egress from their difficulties. Hence autarchy, fascism, etc., since the capitalists of these lands are debtors, not creditors. Hence what they seek is some escape from the dilemmas that led to Imperialism. They seek conquest, not investment. This is the last phase of Imperialism, one in which its very success leads to its opposite: cessation of foreign investment (which is relatively peaceful) for outright plunder. As to the notion that certain requirements are compatible with socialism, any answer concerning raw materials etc., that ignores the class utilizing this resource, is, of course, to the Marxians, mere formal rhetoric.

On the question of Marx's credit hypothesis: He never takes the view anywhere that duplicate capital has a life of its own, not referable to the physical accumulation of capital. Burns's little pamphlet on "Money" gives the exact Marxian analysis of the "creation of bank credit," and it is really surprising that Bingham has not analyzed it. But anyone who believes that capital can be provided for in the *non-material* world, must after all be referred to the adepts of Mme. Blavatsky or Aladdin, for this is the philosopher's stone and text-books on alchemy have been unfashionable since Bacon.

The contradictions alleged, as to merchant capital, are not there. Marx clearly defines the conditions under which storage is productive labor and under which it is not. The same physical activity often has differing economic significance. As an example, wasted labor is not value-forming, although the same activity is value-forming toil.

The reference to the difficulties that Engels had in restoring the reasoning of Marx is surely unkind: the full descrip-

tion should have been cited of the terrible illness of Marx that compelled him to leave his notes and marginalia unworked. To use the illness of the greatest economic mind that ever lived (due to his passionate overstudy and sacrifice) as an argument against his reasoning, is the kind of commentary that is censurable. For Engels, on page 13 of Vol. III, explains exactly why Marx's manuscripts were difficult to handle.

38

Miscellaneous Critiques and Objections

Minor Critics of Marxism (British)

Bernard Shaw. "The Intelligent Woman's Guide to Socialism, etc."

In 1888 in the Fabian essays, Bernard Shaw annihilated in a few pages both Karl Marx and Henry George and substituted for their unauthentic wisdom a few handpicked bouquets from the quasi-rent garden of Alfred Marshall. He declared Marx antiquated because he depended on the iron law of wages and a "pure" labor theory of value. Having proved completely that he never read a line of Karl Marx, or if he did that he suffered from an infirmity of the senses, Shaw forty years later wrote a canonical system of socialism, based, if one pleases, on a "better distribution of income." He repudiates surplus-value and decides that the increment of the rich arises from misdirected rents of ability, etc. This is interesting as a proof that gall can be substituted for science.

Emile Burns

Burns proposes some interesting variants on Marxist theory, in scattered contributions in the *Labor Monthly*. He points out that high wages are not the cause of crisis. The tendency of wages to rise does reduce the production-consumption contradiction somewhat: it lowers profits, true, but it postpones the crisis for a short time. In the monopoly stage of capitalism we must describe the crises of capitalism anew, since the refusal of monopolies to cut their prices prevents the old-fashioned restoration of the rate of profit and results in its being restored partly by the accessory acts of pliant governments, and a much more brutal, though disguised, expropriation of the middle classes.

German, French, Italian, Belgian, and Russian Minor Criticism

Othmar Spann. "Hauptheorien d. Volkswirtschaftslehre, etc."

Spann is the founder of the "organic" school which gave fascism *à la* Hitler a philosophical basis, though Spann has since parted company with the Nazi sympathizers, as has their only other serious intellectual, Fried.

He attacks Marx on a pure *führer* theory, that the achievements of the laboring masses are rendered possible only by a leader, and that the "universalist" study of economics considers the masses as the material for ability; a sort of historic piano for virtuosi. After this Carlylean theory of heroes, which entitles the leaders to immense compensations, he attacks the theory of surplus-value.

In the first place, relative surplus-value ignores the fact that large industry is not always more efficient than smaller units, that size is often a matter of adaptation. But above all, when capitalism achieves centralization it increases the ratio of constant to variable, and thus dries up the very sources of surplus-value by merging! The less living labor, the less is added to value, and so the less surplus is produced. As the fifth section of *Capital* is concerned in detail with this very contradiction, Spann might have cited it.

He also denies the Marxian theory of costs. According to his classification they consist of wages, interest, compensation for risk, the service of leadership, salaries of government officials, costs of administration, taxes, education, and provision for new capital.[1] Payment for management is sharply distinguished from payment for leadership, which is creative.

Few economists would consider this additive procedure worth criticizing, and so Spann's acrid comments are not confined to Marx. Obviously he counts many factors twice, ignores the basic production relation out of which all accessory payments are made, etc. He has had his fill of bourgeois criticism, which prefers even surplus-value to his catalogue!

Georges Sorel

In his purely economic criticism of Marx, the Syndicalist philosopher maintains there is no such thing as a theory of value

[1] He forgot dog licenses.

in Marx. What Marx has described is a theory of equilibrium true only for a revolutionary society. (It seems like a contradiction in terms; perpetual revolution is scarcely a society.) Marx's system requires all industries to be equally easy or difficult, all workers of one type.

Sorel is obviously thinking of Marx's own definition of his method in Volume I, but his version is quite fantastic. He ends by maintaining that we must give up the idea of converting Marxism into an economic science.

Charles Gide

The most gifted French economist of his time is cursory on Marxism, though he lavishes chapters on Utopian socialists. Marx, he holds, is Ricardo! Labor-value, conflict of profits and wages, theory of rent, notion that value does not concern rarities, etc., what are these but Ricardo? But Marx rejects Ricardo's social implications as he rejects a Utopian issue. His theory, specially, turns on concentration. But it is pointless. There are men richer than the richest who have ever lived, but there are also more people who are fairly rich than ever before. Joint stock distribution may weaken the middle classes, but it allies them to comfort and to order.

True, the condition of the workers is capable of much improvement and Marx has deserved well of us by calling attention to this too often neglected condition of the majority. But the workers should rely on co-operation and social amelioration, by insurance, etc. It is less dramatic but more sure.

As is to be expected from a Parisian, in a city full of exquisite artisan-work, Gide declares that the perfection of designs and the beauty and precision of scientific instruments, etc., answer the theory that goods are made for sale, not for use.

Benedetto Croce

The veteran Italian philosopher, and his disciple, the one-time socialist (now Fascist) Giovanni Gentile, in his *Filosofia di Marx,* maintain that Marxian thought, through and through, is abstract: his modes of probing into his categories and their action are ab-

stract. But Marx intends that these categories shall come into the market place, live, and fight.

Good, then he divests them of certain qualities and makes them take on others. Labor-value, for example, could be true only for an ideal society without classes. An accomplished Marxian must *transmute its qualities* to adapt it to a society in which it pervades life but does not describe it.

V. Pareto. "Les Systèmes Socialistes"

Pareto expounds his law that the proportion of the concentration of capital or "doses" of capital and labor will be allowable until their favorable utility is in equilibrium; this puts a brake on the indefinite expansion of industry, for if land or capital or management or labor or *markets* run short (any one of these) the unbalancing reduces the efficiency of the others and causes a readjustment.

It is interesting to compare this abstract morphological study, with its hash of categories and markets, with the concrete picture, based on shifting class relations, of a monopoly disequilibrium in Lenin's *Imperialism*. Pareto's theory bas found few disciples, but in France and Italy he bas captured several of the mathematically inclined.

Marxism to him, of course, overemphasizes the labor factor by making it the only factor in production. If labor alone adds new value, then Pareto's equilibrium is not needed, for the question is one of appropriation and not of balance.

Jules Romains

One includes this novelist, not because of his economic merits[2] but for the point of view of which he is a banal spokesman. Wby, he asks, should any of Marx's economic propositions be considered true, when the chemistry, physics, biology, etc., of his time is superseded? Economic society changes more than any other; why should his ideas not be relegated to a museum?

[2] Though his play *Donogoo* is the most pointed satire on capital promotion ever written.

This is the unconscious burden of most clever "intellectuals." Actually, serious economic scholars are still impressed by Smith and Ricardo, chemists by Julius Fischer, bacteriologists by Pasteur, and biologists by Darwin. Also, George M. Cohan is not a greater playwright than Sbakespeare, nor Edgar Guest a better poet than Virgil. The question is not how old it is but how true it is.

That Marx will be largely supplemented and refined and adapted is true but that his analysis of capitalism, worked out by himself and Engels from 1843 to Engels's death in 1895, in the heart of capitalist Europe and after the greatest mastery of the literature ever known, and whose forecasting power is generally admitted, can be dismissed on any other ground than that it migbt be false, is another matter.

Henryk Grossman

The continuous stream of articles by Grossman is significant. He points out that we must hold that the means of subsistence are not very elastic for long periods, as otherwise Marxian constructions would become formless. Actually Marx has an excess of form in Volume I, for that isolates a closed capitalist economy with no foreign trade, no credit, value of money constant, two classes only (capitalist and proletariat), all goods conceived of as aliquot parts of total value. In Volume II he gives the whole circulation system, but still limited by assumptions; in Volume III there are no assumptions and exclusions but the economic history of living capitalism.

Crities talk of discrepancy when they should speak of expansion of static concepts into their dynamic action. The last two volumes were in his original plan, when he abandoned the merely descriptive scheme in 1863. He had to study a chemically pure capitalism so as to isolate surplus-value and discover how it held rent, etc., in solution. His theory of credit was what he did not live long enough to illustrate fully.

A. Bogdanov (1873-1928)

This philosophic target of Lenin worked under the Soviets and was esteemed as a man, though suspected as a thinker. He denies

absolutely that the economic order is historically conditioned or that it develops in accordance with economic laws. The fetichism of capitalist commodity production is true, but it is due to a lack of understanding, a subjective failure to recognize social relations turning about production and the consequent form of distribution.

Value is crystallized labor-time, and therefore, since social labor-time must continue forever, is independent of any social order. It is not an evanescent appearance that will go with capitalism. (This is really the theory of von Wieser that marginal utility value can be perfectly realized in Communism—*Natural Value,* London, 1889.)

Charles Turgeon

The head of the faculty at Rennes in Britanny is a tenacious Breton. He holds that the entire concept of economic determinism in Marx lacks precision. Sometimes Marx says that the techniques of production and exchange are decisive, and at other times he says general economic conditions are, to which he adds the superstructure when he likes, and abandons it when it serves his purpose to, etc. It is a device, whose size and shape varies to suit Marx's convenience. Turgeon has been a doughty foe of Marx for thirty years and has a disciple in Henri Sée. His principal opponent in France is René Maublanc.

Spectator

Social Science Abstracts notes that a leading Russian economist, under that pseudonym, has at last integrated the present system of world economics, including the interrelation of non-capitalist and capitalist areas and aspects, into a whole, as required by Marxian theory. Those who read Russian might do well to consult this effort.

Henri de Man. "Psychology of Socialism"

For a finance minister, the purely economic criticism of this self-advertised great reviser of Marx is surprisingly small. He argues that surplus-value does not exist, but merely dogmatizes. He affirms that the reason the workers go to the factories is their

enjoyment of labor, not the forced sale of labor-power; he proved this by a questionnaire in happy Belgium. We have little time here for this type of critic, as he belongs to the more readily discussed "philosophy" of Marxism.

M. Anhalt, in "Ekonomistya" (1929)

This disciple of Rosa Luxemburg holds that Volumes II and III of *Capital* enumerate the problems that political economy has to solve, and lead to the solutions but do not give the solution itself. Marx forgets that in an isolated capitalist economy there can be no equation for reproduction, for production equals both productive consumption and unproductive consumption, and there can never be a balance. Marx thus overlooks both overproduction and deficit because of his self-sufficiency.

On the other hand, Grossman (see Bibliography) thinks Volumes II and III not torsos but completed studies with full solutions, and refutes conscientiously the theory that a deficit in consumption cannot be remedied within a closed capitalist system. (See the section on Rosa Luxemburg.)

Varga

The official exponent of the current Marxian theories (in the relation of Marxian method to topical situations) is E. Varga, formerly a classical economist. While he says little that is not in the present tradition, he is so faithful and clear an interpreter that he typifies a certain approach. At the same time, in repeated congresses concerned with economic questions, his point of view has been attacked as far too adroit and as glossing over dialectical difficulties. With these provisions, his theories remain dominant, especially on the statistical side in which, if he lacks the profundity of the German Marxists, he bas an unrivaled gift for presentation.

Rate of Growth of Constant Capital

He carries further Thompson's illuminating idea that the accumulated wealth of society is trifling as a factor in economic calculation. In the United States the amount of constant capital is

figured as merely three years' production. Living labor adds an increment of 25 to 30 per cent per annum. But net accumulation of capital is merely from 3 to 4 per cent per annum, whereas in England, even during booms, it is merely a little over 1 per cent. He contrasts this with the rate of capital accumulation in Russia, which he considers a decisive argument for socialism.

Lenin, he holds, rejects imperialism as a pure system. It is a definite stage *in* capitalism, not above capitalism. It is a superstructure, ever more important, but never more than that, for the foundations of competition, etc., remain, worse than ever.

The characteristic of decay is not the statistical computation of mass of production, but of the nature of its distribution and its inherent tendencies. Nevertheless mass of production is to be considered in this way: from 1890 to 1913 capitalist production rose 5.8 per cent per annum, and since 1913, 1.5 per cent per annum. But as world population rose 15 per cent since 1913, despite the war and epidemics, the actual increase is the smallest in the history of capitalism.

Differential developments are becoming more strained than ever. Since 1913 the United States production is up 52 per cent, England 7 per cent, Germany 9 per cent, France down 2 per cent, Japan has increased *fourfold*. Cotton and steel are declining, rayon and oil and cinemas rising, etc.; but Varga does not explain theoretically wherein this differs, in relation to the whole position of capitalism, from similar disturbances between, say, 1780 and 1820 (it was then an evidence of growth). This brushing away of inward analyses for formal statements is one of his weaknesses. His facts are significant, but they appear as in a catalogue.

His most important Marxian point is that the excess of fixed capital is consistent and never wholly eliminated; even in 1929 in the United States it was over 20 per cent, and, over a decade, well over 40 per cent, including prosperity and crisis periods. Intensity of work, productivity per man increasing by half, and chronic excess of fixed capital, join in producing permanent mass unemployment. This mass unemployment would be catastrophic were it not for the fact that the plunder of the more primitive countries, and the *consistent maintenance of dividends and interest at home,*

despite slackened earnings, enable large parasitic expenditure, and mean a considerable non-industrial employment.[8] Even in England, the revival in industrial employment is largely in the "light industries," that is, largely in consumers' goods.

He argues somewhat like Corey, that expropriation from the soil, conquest of colonies, building of public works such as the railroads, and exportation of capital, the four forms of relief for capitalism, are drying up.

On the last he is emphatically correct, but he does not correlate two factors, the reduction of export of capital and the implications for Lenin's theory that this age is characterized by an export of capital as the former was by export of commodities.

Nor does he correlate the reduction of middle-class parasitic income, due to devaluation, default, conversion, with Lenin's theory that this parasitic income was becoming primary.

Obviously Lenin understood these as symptoms of a given monopoly situation, but those which, once they had served their purpose, must give rise to other expressions of monopoly capital interests, since it is their position in production that is decisive, and the others are merely reflections of that mode of production. Varga does not critically expound such adaptations of Leninist theory.

He makes the excellent point that owing to tremendous plant investment of monopolies they dread their supersession and so they concentrate on macbine tools, speed up, etc., but decline to make giant new investments. The refusal to accumulate means that the ratio of constant capital or, at any rate, of fixed capital, is not increasing. The implications of this latest phase, in which capitalism attempts to extract surplus-value more out of variable capital, transferring less value and creating more new value, and yet attempts to reduce variable capital itself, by reducing employment and wages, points to profound changes, and would be a masterly thesis in "degeneration," not as a literary concept, but an exact economic expression. Varga explores an important extension of theory.

The agricultural crisis for him is unique. In the latter part of the nineteenth century it began with the competition of the new

[8] Not that dividends and interest are not reduced, but not to compare with profit reductions.

countries. Now capital itself, that once took off the burden of agricultural losses, is declining. Hence inventories of agricultural goods are permanently above prewar, even in the best years.

The wave of devaluations of currency, the first in capitalist history (common enough in the Renaissance), is a new weapon, and helps retain the privileged position of monopolies. Their prices are comparatively firm, and the relation of these prices to poorer competitors, means that we do not have the normal write-down of constant capital, so that the recovery is shifted to a write-up basis in fictitious currency. A competitive society could not do with this device, but a quasi-monopolistic one requires it.

The decline of world trade which, in gold value, is only a third of 1929 (though nearly as great in mass), brings about autarchy and currency restrictions, and quotas. The volume of trade is now only 6 per cent above prewar, the first time under capitalism that external trade has stagnated. The manufacture of consumption goods in colonial countries is a cause; so are restrictions of immigration.

To him the present unique characteristics are: (*a*) interior monopoly dictation of policies and centralization, as in Fascism; (*b*) reduction of debts, the rich being the debtors in the shape of bonds, etc.; (*c*) subsidies to bankrupt monopolies so that they play a sure thing—profits when they get them, subsidies when they do not; (*d*) social legislation (France and the United States; increased workers' resistance, typified in the C. I. O., which alone makes social legislation real); and (*e*) war preparations. These he divides into two sections, those in countries with abundant capital (such as Britain and the United States, where these schemes actually increase consumption) and secondly, Germany, where they can be effected only by reducing consumption.

He considers, of course, like all Marxians, that the chronic mass unemployment and speed-up (which requires more subsistence to maintain the expenditure of energy) show a progressive worsening of labor conditions.

His last demonstration of monopoly is farming; in 1910 less than 19 per cent in area of American farms were over 1,000 acres, in 1936, over 30 per cent. At last the *tempo* of capitalism in agriculture is beginning to rival that of industry; capital is breaking through the customary barriers of land tenure.

Common and Miscellaneous Objections to Marxism

The following theories have no name specially identified with them, but it is a rare economics seminar that will not produce them.

I. The Rich Either Consume or Reinvest, and in either case there is no loss to labor. For if they reinvest they employ labor, and if they consume they employ labor, and unless they merely hoard (which is rare), their profits are really another mode of serving labor. There are so many labor-hours, whether they are consumed as machines or as champagne.

Marxist Commentary: There is no reason to answer this theoretically. If the rich "cost" nothing, then nobody costs anything. Then why don't they pay their workers a thousand dollars a week? The workers would either consume it, and so let the capitalists sell at a profit, or they would save it, and so add to invested capital in production. Since no class, by this argument, can abstract anything, why hold on to class relations? You cannot take from a man what he does not have, and so, if the rich neither consume nor fail to invest, what would they lose if it were confiscated? The transfinite becomes the infinite. As to the theory that all incomes add up to so much, the slave and the master, when added up, yield a total of possessions.

II. A Man Invents Something—Why Shouldn't He Make Something? Perhaps he ought to; usually he doesn't, and "inventors" are no longer ingenious watchmakers and crazed mechanics in garrets and barns, but usually salaried scientists working for monopolies. At any rate the incentives to invention are complex: the sources are social largely, and the complexity of the matter is such that it is really dubious to what extent persons whose names are given as the inventors are anything other than ingenious mechanics with a flair for assimilation of others' techniques, etc.

If the incentives to invention are not primarily pecuniary, then the social utility of the discussion is small. The Harvard studies in their motivation bear out the idea that the pecuniary motive is slight, even under capitalism. An inventor is like a spider or a poet: he has to go on that way or be miserable. His reward is creation, and keeping it up.

III. Capitalism Was Brought About by Money-makers, Socialism by Agitators. There are two objections rolled into one. The first assumes that capitalism arose naturally by those who practiced it, and the second that socialism is purely a destructive and critical attitude and, as Sombart says, attracts men who do not think in terms of construction. Marx made no money. (But Engels did, which is something the Sombarts forget.)

No, capitalism came about by a conjunction of money-men, with soldiers and statesmen, jurists and thinkers, as their allies. The proletarian, like the merchant in the Middle Ages, is fashioning a new society within the old, that of social labor, and capitalism is developing the social forms to be taken over. The middle class, constructive and honest, is becoming a trained salariat, and technique and labor are beginning an alliance. It may prove uneasy at first under socialism, but will make way for a later fusion of labor and technical education.

True, the socialist is primarily not of the stuff of men who are perfectly adapted to a system as it stands, but neither were Luther, Columbus, Cellini, da Vinci, and Descartes.

A system begins with men with critical but synthetic minds, combining destructive tendencies with an inner apprehension of development. It bumps badly until it acquires a technique, true. But that is life, and always will be until we are frozen into another ice-age.

The second objection is that the love of money is inherent in man's psyche, or capitalism would never have developed. Once the poison is in his heart, he will return to the fleshpots of Egypt and socialism will be destroyed by the nature of the beast. Of course there is truth to this. But man also had the capacity for witch-burning, the Inquisition, sacrifices of young girls to Babylonian fire-gods, or what you will. Whatever man had done, he is capable of doing. But the argument has no more validity than that of identification. We can do nothing with the concept.

IV. If Communism Occurred, There Would Soon be Another Division of Property by Those That Held Power, as in This Way Primitive Communism and Democracy were Dissolved. Power is

the Authority of Classes. The Strong Seize the Means of Production and Subjugate the Others.

This is a variant on the "if you divided everything" objection to egalitarian socialism *à la* Edward Bellamy in *Looking Backward*. The Marxians, however, do not posit equality, but inequality; the only meaning of equality for them is the abolition of classes. What the analysis forgets is that every society, including our own, is based on an economics of scarcity. For example, capitalism limits production because of the need that production pay a profit. Where there are limits of production, corruption, as with the Jacobins, eats up the revolutions.

Where there is a classless society based on abundance and on a new technique of education adapted to it, we have yet to see whether older psychic patterns would have social meaning. At the best it seems excluded, and at the worst there is no analogy to guide us from the deficit economics of the past. The bourgeois psychic survivals in Russia are still met with, but among those under thirty they are already feeble.

V. If Labor-time Determines the Value of Goods, and the Value of Labor-power is Itself Determined by the Means of Subsistence, and the Value of These Is Their Labor-time, How Do You Escape from Regression, or Circular Reasoning, and How Does Marx Escape the Contradictions of Adam Smith, that Labor Was Determined by Cost of Living, and That by Labor?

If the Consumption of Labor-power is Unique Because it Can Produce Surplus-value, Why Can't Other Natural Forces Produce a Surplus?

Marxian Commentary: Labor-time determines value; the price of labor-power is determined by value; where is the contradiction? The cost of labor-power is only a part of its time, and not all of it; Marx's theory explains their differences, due to surplus-value; whereas Smith chased his tail. If Marx said that the means of subsistence were labor-time and this determined total labor-time (not merely that *section* that was the price of labor-power), he would be in as bad a way as Smith. He saved the labor theory by his surplus-value theory.

Other forces command a price that is determined by the labor-time put into their utilization, as with public utility rates based on physical investment. They never comprehend a surplus-value, since that was already included in the price of the equipment for utilization.

VI. Why Can't Bureaucrats and Soldiers Take Surplus-value Like Capitalists?

How? Only by getting labor to work a certain number of hours for them gratis. For reinvestment? That is excluded. For consumption, then? That is possible. But where do they reproduce the class relations in production, as a constant process, if there is no ownership of means of production? Some *spoliation* of consumption goods is not absolutely excluded, but class exploitation, as a relationship in production, is ended. Capitalism, and not socialism, would have to be instituted to replace it. Surplus-value, in a developed technique (not among *boyars*), is a production relation, due to the sale of labor-power for capitalist value.

VII. What is a Worker Anyway but Someone that Changes the Shape of Things or Their Place?

But both his hand and his eye are replaceable. The automatic power station shows that he can be eliminated largely from production. Granted that he must always be present in some numbers. But might his contribution not become inconsequential as science learns to replace the crude human forces with their fallibility and approximation with perfection, synchronization, accuracy, predictability? Suppose that cellulose is converted into starch directly, where are most farmers? Or water-crops, electrically stimulated, to replace land crops? Could not labor be nearly wholly replaced?

This vision of the future (not the present) has some logical defects to mar its beauties. Unfortunately capitalists could make no use of this paradise. Already its techniques result in mass unemployment and the attempt to bridge the gap in demand is leading them into adventures that may be costly enough to annul all the benefits of technique. Technique occurs in no technical vacuum greater than that of the brain-pan of Utopians.

Unfortunately, too, this dream has little significance for this historic, or any proximate historic, period, with which Marx is concerned. The mechanical development of mankind is stupendous compared to the past. How many workers has it eliminated? There are about a billion, four hundred million human beings working (including housewives). Of these, no more than 3 per cent on a world basis, have ever been unemployed at any given time. In the mechanical industries of some countries unemployment was 50 per cent, but 97 per cent of mankind still plugged at daily tasks.

Ever since the Stone Age man has been rendered comparatively superfluous by the invention of devices. Everything invented has replaced some movement of his body. And the result? A proletariat of hundreds of millions, the mass labor of which Marx speaks.

Actually this question is based on what Engels calls the prejudice of human division. It assumes that the "educated engineers," a priesthood, apart from "manual labor," ought to dominate. Perhaps it would be better to build on the *certainty* of continued mass labor, and impose the Hellenic ideal of man, a whole, a fusion of manual and intellectual training, rounded, not divided by class education. Plato is still a greater guide than the *Scientific American* for the humanity that is, after all, the object of all production.

SECTION IV

Sources and Philosophy of Marxist Political Economy

39

Economic Theories of Capitalist Society[1]

Prior to the seventeenth century there is little economic thought. To Aristotle, to whom slavery is natural, or to a chancellor of a dying feudal state, Sir Thomas More, who turns in horror from completely money societies,[2] all thinkers mirror the state of society in which they were educated.

St. Thomas Aquinas is anti-commercial, as befits the great synthesizer of a Church whose territorial and hierarchial institutions were analogous with feudalism. The wandering Jewish merchants, on the other hand, in their Talmud, maintain a commercial point of view that has an up-to-date look.

With the importance of the precious metals the mercantilist theories of the seventeenth century echo the need to acquire those reserves. The power of the absolutist state, during the brief honeymoon of manufacturing system and nobility, led to the "Cameralist" thinkers of the early eighteenth century.

So soon as trade became paramount, poets like Bernard de Mandeville in his *Private Vices Public Benefits,* maintain the point of view of luxury traders.[3]

It is not until the manufacturing system is triumphant (1750) that its exponents appear. These are Steuart in Scotland, and, for an attempt to appraise the relations of agriculture, trade, and manufacture, Quesnay in France (1760).

But the pure mercantile theory had already produced remarkable works as candid as they are original. Whether in the newly

[1] There is some repetition in the next two chapters and some restatements of earlier reference in this textbook. But these are necessary (and rare), because of their being presented logically for other purposes.

[2] In his celebrated *Utopia.*

[3] Dryden in his "Annus Mirabilis" says,

"Trade which like blood should circularly flow."

discovered art of statisties of Sir William Petty or the brutal truth of Jacob Vanderlint (1734) (*Money answers all things*), the keen trading wisdom of Dudley North or the intense studies of money and credit of the inspired Norman, Boisguillebert, there was no shirking of any issue, no toying with any problem.

In Marxist theory, the explanation of this candor lay in the rising fortunes of capitalism. It had a world to gain and its only fears were from feudal survivors, not from any inner danger.

Modern Political Economy

The Physiocrats, who really created the science of politieal economy, were concerned ardently with the question of total revenue and total reproduction of capital in their commonwealth. They, too, presented the most fundamental questions and feared no difficulties. Their radical solution, of a tax on the net product of the soil, accompanied by a total liberation of trade and production, was the great blast against the paternal monarchy.

A Scotch ethical philosopher, Adam Smith, fused their thought with that of the practical experience of the most mercantile and financial people in Europe, the Scots. His *Wealth of Nations* (1776) is the bible of Free Trade and, for people of English speech, the book from which every economist dates his branch of learning.

Smith dodges no issues. He is extremely sympathetic to labor, which "produces all wealth" and is the source of all value. Rent is often a criminal deduction from wages. Although Smith is eclectic, his book bristling with fundamental contradictions and stuffed with half-baked definitions, his courage is unmistakable.

His school is summed up in the greatest of classical economists, David Ricardo. A millionaire, speculator, banker, practical authority on currency, he concentrated on the question of distribution and on taxation. An adherent of the labor theory of value, protagonist of the law of rent (pretty much as economic science still sees it) he, too, stated every contradiction in the economic system with no reserve. For that reason he was assailed, despite his wealth and standing, as a sower of discord between the classes. With his rounded thinking, according to Marx, classical economics came to an end.

From that point on, the commentary of Sismondi (1830) that every contradiction noted by Ricardo leads to a socialist critique, haunts the economists. The fact that such millionaires as Ricardo embraced a social pessimism and other millionaires like Robert Owen, a Utopian Communism, frightened the rich. The panic of 1825 and the succession of commercial crises in its wake were symptoms that while the system would continue to advance, it had a mortal (though long-enduring) illness. Hence political economy, says Marx, becomes "vulgar" (from the French, *vulgariser,* to popularize a subject by making its superficial aspects appear equal to its total significance). It now has other than a scientific purpose. For it needs to justify the capitalist system against its class opponents, the workers.

Therefore it courts the eclectic theory of John Stuart Mill (1847) that the claims of labor are just and ought to find a place *within* capitalism. Or it seeks to state that there is no contradiction, as with Frédéric Bastiat of Bayonne in France (1850), who holds that economic harmonies can characterize the whole of production. Or, it declares that the nation is paramount and protective tariffs enrich employer and worker alike, as with the American, H. C. Carey.

According to Marx, economists become more and more timorous. The bourgeoisie, once having conquered the aristocrats in France, in the 1830 Revolution, and in England defeated the territorial magnates by the Reform Bill and the repeal of the Corn Laws (1832-46), now know that their enemies no longer come from the past but from the future. They can no longer ally themselves with unrestricted liberalism. They must defend the *status quo.*[4]

Reform Theories

Marx states that economists, from this point on, try every approach that will deflect the attention of workers from production relations. They center on distribution, as with Schultz-Delitzsch, a co-operationist. Or they seek the difficulties of all classes to lie in

[4] These thinkers are studied from a different point of view in the chapter on the sources of Marxian economic theory.

the phenomena of money and credit, such as the bimetallist or "social credit" schools.

Some maintain that social security can be gained fully within the framework of the present social order (the *Socialists of the Chair*, and *State Socialists* of Germany) for example. Others hold that within the legal framework of capitalism, a gradual transformation from private enterprise to public enterprise can begin with municipal ownership, etc. (Fabians in England like Bernard Shaw or New-Dealers like F. D. Roosevelt.) [5]

For these theoreticians and statesmen the social economic relations are determined experimentally, without reference to such large words as *socialism* and *capitalism*.

The state interventionists do not hold the field, however. There are modern physiocrats like Henry George (*Progress and Poverty*, 1879), who hold that the capitalist system does not really exist now, but only a mixed society in which capitalism (which is good) is corrupted and falsified by privilege. Remove this privilege, and the capitalist system will really be as harmonious as Bastiat thought. This is the most radical solution within the framework of capitalism, because it would confiscate the value of land and public utility and railroad rights of way and end tariffs. For that reason it has met with the least favorable reception. It is the only bourgeois system that declares Marx naïve. It believes that in attacking "capitalism" he failed to identify it correctly by not analyzing its constituent factors. (See Chapter 35.)

How Economics Molded Ideas

About 1850, the English economic school believed that it had a perfectly objective science. This, according to Marx, was an illusion. It defended Free Trade because England required cheap raw materials and also wanted a universal market for her goods.

So soon as her privileged situation came to an end, economists like Ashley (about 1900) and a host of others abandoned Free Trade. They think it is because they now think otherwise, but

[5] Naturally the significance of such ideas varies greatly with the degree of development of capitalism when they are advanced.

actually they are conditioned by the specific needs of their bourgeoisie.

The Germans, about 1850, denounced England for its universal deductive theories and declared that only in the total historical experience of each nation was to be found the organic presentation of economic wholes. Marx holds that these theories are a product of the German need for tariffs to build up industries to rival England.

Not that he is as direct as the foregoing sketch indicates. There are still Free Traders in England and Germany. American economists have usually been Free Traders despite the consistent national policy.

There are mighty contradictions within each class, and, in addition, there is a scholastic lag behind the brutal present needs of new classes.[6] But by and large, economists think they are objective, when they are as determined in their arguments by the prevailing needs of the economic system, especially in fundamentals, as though they were commanded.

The Austrian School

The most vivid example of Marxian contentions is in the school that has been the forefront in Marx-criticism, the so-called Marginal Utility economists.

One and all they hold value to be subjective, and many of them declare it to be a relation, not a quantity. They represent the viewpoint of consumption, of the buyer. According to Marxians, this is the economic theory of the leisure class. It represents that enormous body of capitalists, who, living on interest on bonds, mortgages, rents, pensions, dividends, bank accounts, etc., no longer have any connection with the production of wealth.

They view all society as a *market* in which goods are offered for their appraisal and among which they choose. The fluctuations of their choices are the fluctuations of value and price. Coal-miners in England, say, spend fifty hours a week in production and have

[6] Scholarship, too, by encouraging objective examination, is biased toward honesty.

$13 a week (when employed) with which to figure out consumption. Necessity figures about all that £2/15 for them.

Sir John Wastrel in Piccadilly has $200 a week, whose origin he scarcely knows, and he spends all day long deciding between various flavors in Havana cigars and the most suitable type of stud for his evening shirt.

According to Marx, the economists of the two classes will think differently. Sir John's cousin who goes to Oxford and dallies in economics will think of subjective valuation. The coal-miner's "agitators" will think of what he can get out of the boss in the wages-struggle in the mine.

Marxians hold that the economic theory of their critics, then, is based on class thinking. Their own, they proudly admit, is. They tear the veil of objectivity from their opponents. But at the same time they maintain that the character and diffusion of their ideas cannot be ignored by the historian, for they are part of his material.

40

Sources of Marxian Economic Theory

It is extremely difficult, and certainly artificial, to separate the economic theories that preceded Marx's formulations from their accompanying social philosophies. The economic thinking of a Ricardo or an Adam Smith cannot be disassociated from its assumptions, and these presuppositions are influenced by the circumambient notions concerning the soul of man and its modes of action, or of society as they conceived it.

It would be too remote an undertaking to point out to what an extent the association theories of Hume, the sensory approach of John Locke or the utilitarianism of Hartley colored the thoughts of the economists.

Nor is it amiss to point out that the rural organization of France determined the thinking of those remarkable men, the Physiocrats, or that the needs of English trade and colonial relations conditioned the more rambling, eclectic ideas of Adam Smith.

For our purpose, to trace the filiation of the purely economic ideas of Karl Marx we have to make three falsifications, the first that of separating the economic doctrines of his spiritual ancestors from their remaining philosophy, the second the assumption that the socialistic thinkers (the Utopians and politicians who preceded him) were inspired by economic ideas, instead of what is nearer the truth, that their humane perceptions led them to examine the economic system in a new way. Lastly, we assume that the Marxian economics itself is a system, whereas it is, so to speak, wrapped up in a system to which its bulk gives shape.

If these three artificialities are borne in mind, the following skeletal story can be of service. One more caution: when the theories of Marx's predecessors are given it must be remembered that the economic facts they describe may be given in similar words

to those of Marx, but, owing to the wholly different technological basis, the content of these expressions is dissimilar.

Aristotle and Plato

Aristotle noted the twofold nature of commodities, one peculiar to the thing and one not: that a sandal may be used for footwear and also it may acquire in exchange money or food or other clothes. When a person sells a sandal or exchanges it, he uses it as a sandal, says the Greek thinker, but in a different way. Its natural function is to clothe the foot. Here the idea of two values, use and exchange, is given, as also the idea that the use-value of the sandal remains, but it is not its natural use which it has in that special exchange relation.

Aristotle also discovered that money could be a medium of circulation and also a capital, and that it was a measure of value as well. These three functions he distinguishes exactly as does Marx, and not as other economists have since.

This teaching, combined with Plato's acute idea of the division of labor as related to classes in the State, are the classical sources of Marx. (Like all Germans of his period, trained in their *Gymnasiums,* Marx was versed in Latin and Greek philosophy.)

Marx's Sources in Early Capitalism

Marx himself has identified his ancestors. They are Sir William Petty in England, about 1660, and Boisguillebert in France, at the end of the reign of Louis XIV. Apart from Socialists, the last source is Ricardo. The subsequent work done in economic theory (not description or statistics), as stated earlier, is a disguised apologetic.[1]

Petty was the first explorer of Marx's economic doctrine. Petty held that value was estimated by the equality of labor contained in any two commodities and was the foundation, as to quantity, of the balancing of values.

But, he added puzzled, in the superstructure and in the practices of exchange there was "much variety and intricacy."

[1] Except where class interests were not involved. The penetrating analysis of J. E. Cairnes on the slave power in America was first-rate objective *British* science.

Boisguillebert was the first thinker to see that metallic money could be replaced in its monetary functions by paper money; that the functions of money were that of a special universal equivalent in exchange.[2]

Boisguillebert, as well as Petty, the philosopher John Locke, and the merchant Dudley North, were the four pioneers of economic criticism in that they rejected the notion that the supply of gold and silver, by itself, was the wealth of a country and that the unique object of its trade was their acquisition. Nor did any of them, on the other hand, assume that if gold and silver were not the only form of national wealth paper money was a mode of augmenting it. What they denied to metal, they could scarcely give its paper messenger.

Despite the originality of Petty, the sources of Marx's economic doctrine are proportioned to his system. They are the Physiocrats in France; the classic economists, principally Adam Smith and Ricardo, in England (the monetary speculations of Benjamin Franklin were in their frame of thought, though anticipatory); the communism of Robert Owen; the Utopian critique of capitalist society by Charles Fourier; and the inspired doctrine of the first of Socialists, Saint-Simon.

We are confining these sources to economic thinking and thus restricting the immense methodological contribution of Hegel's philosophy.[3]

That gives the outlines of Marxian sources but its richness is due to its skillful use of science and mathematics and political history read by a real man. While only the first of his two giant contributions has gained uneasy ascendancy (historical materialism) and the other (surplus-value) is the center of conflict, it is significant that the cultural rather than the economic doctrine has done the best.

For all that, there is nothing eccentric in Marx's economic doctrines. He is not the crackpot or reformer who thinks that his

[2] And also the first to anticipate the Ricardian law of rent.

[3] Not enough attention has been paid to the rich contribution of Hegelian thought to Marx's notion of *economic categories* immanent in capitalism and externalized categories, such as *value* and *price of production;* for example, value, immanent; prices of production, externalized.

brain has illumined the universe which sat in darkness until his mighty mind came on the scene. Marx has been accused of deriving whole sections of his economics from Thompson and, by some, from various suggestions of Louis Blanc and Victor Considérant.

He would have pleaded guilty. For him, the thinker outside of the reference of the cumulative thought of men, is a fool. His theory of history required him to recognize that in discussing the real world, one begins with its phenomena and sees its reflection in the human mind, before one sits in judgment on the economic and historic progress of the race. But all the greater is the obligation to find a synthesis, to turn on a new point of departure.

The Physiocrats

The Physiocrats were the first thinkers to preoccupy themselves with the economic conduct of a nation as a whole, both its production and circulation. The *Tableau Économique* of Quesnay (1760) was the most ambitious construction of economic totality before Marx.

To the Physiocrats, only agriculture was productive, that is, returned a net surplus of national revenue. This surplus is rent. Apart from the primary class of farmers there is a second class—of landlords, priests, soldiers, government officials, the king, etc.—that live off this production of the soil. Then there is a third class, the industrial or manufacturing, artisan, and commercial class. These are sterile. They add to raw materials, given them by those that work the soil, only the amount of value they receive from the tillers of the soil, in the shape of their sustenance.

How Production Is Renewed

Those that farm in France, say, in one year, 1759, had a capital of ten billion livres (two billion dollars) of which a fifth is working capital that must be replaced annually. Assuming price and reproduction of capital as constant and circulation within any class as set aside, the sales and purchase relations of whole classes with each other are dealt with. Spinning and similar tasks were considered as farming. In those days home industry on the farms was important.

The harvest reproduces the real wealth of France each year. It comes to a billion dollars. (This was a real estimate made by then known methods.) All that is required for the subsistence and working capital replacement of farming comes in kind out of the farm produce. This comes to 400 million dollars, leaving 600 million surplus product. Of this 400 millions are in food and 200 millions in other raw materials. It is this 400 million they pay to the landlords, and this they call the *net product* (net income).

Now all this is predecent to circulation. Another 400 millions of savings of the farmers from former crops exists in the shape of *cash*. This sum represents the excess of money required from crop to crop above the movement of the crop itself and takes care of interim payments. That is the function of money and so this 400 millions is the total money circulation of France.

Of the 400 millions of *net product* paid to the landlords, they keep four-sevenths and pay two-sevenths to the government and a seventh to the Church by way of tithes (first fruits and tenths, as the phrase is).

Now the industrial class, which Quesnay thought sterile, uses working capital of 200 millions. These 200 millions are converted into goods worth 400 millions, but (here is the point) the surplus 200 million represents the subsistence given to the industrialists by the farmers. We are at the start of a new crop year. The farmers have 600 millions gross products and 200 millions money. The landlord has merely a claim on 400 millions. The manufacturing (sterile) class has 400 millions in manufactured goods. Circulation between two classes is called "imperfect," between all (the completed circuit), "perfect."

The landlords buy means of subsistence from the farmers with half the rent, so that the farmers get back 200 millions.

Apart from improving their properties, the landlords spend unfruitfully. With the other 200 millions the landlords purchase goods from the manufacturers, who, with this money, buy their subsistence from the farmers.

But of the goods bought by the farmers from the manufacturers, part are in instruments that help them in farming. But when the sterile class gets this from the farmers for its products, it must in

turn buy from the farmers 200 millions in raw materials to replace its working capital. So the money given away as rent by the farmers comes back to them and the books are even. The net product (net income) of the farmers is completely explained as to its origin and destiny.

Theory of Interest by Fructification

But the farmer kept some product for himself; he did not pay out all in rent. That sum retained is 10 per cent of his invested capital, it is his interest. He takes it out of his produce, not out of circulation (circulation being defined as movement from class to class). He replaces this produce with manufactured goods. That is how it goes through the system. It is this 10 per cent on investment that reproduces the initial capital of farming but it is not a net product, it does not add to consumable wealth, although it adds reproduction by improving the soil, etc. To sum up:

Farmers produce 600 millions for themselves, 400 for the landlords. Their 600 millions is $\frac{2}{3}$ subsistence, $\frac{1}{3}$ raw materials. The landlords divide their rent $\frac{1}{2}$ to consumption, $\frac{1}{2}$ to buying manufactures. The manufacturers use this half, paid them, to replace working capital. Of total manufactured goods (400 millions), half goes to the landlords, half to the farmers. But for the farmers their share is merely the interest on their capital. The money put into circulation by the farmer's paying rent comes back to him through the sale of his products to both classes and so the year is over.

This valiant attempt to depict the whole process of production, income, circulation, and reproduction was the last political economy of the agricultural system of Europe.[4] It seems old-fashioned to us, but then it preceded the first great inventions of the machine age.

But its influence on Marx is striking. Here was an attempt *not* to describe empirically wages, rent, interest, etc., as though they were isolated "subjects" or different chapter headings; here was an attempt to integrate the whole movement of society by way of classes, to discuss what led to more wealth, how wealth was extended, who

[4] Bryan's "Cross of Gold" speech (1896) is an echo. He was unconsciously a Physiocrat.

exploited, who appropriated, who reproduced, what everyone got, to whom he paid it, and how it all got started again.

Political economy under Adam Smith and Ricardo was painfully aware of the limitations of the Physiocrats, but it dared not imitate their bravery. Hence until Marx political economy turns into a fragmentary science—that is, a study of specific interactions—but no attempt is made to integrate the entire system, not even by the schematic Ricardo. With Sismondi we shall see such an attempt, and, of course, those of the Utopian socialists such as Fourier. But actually the Physiocrats are the only complete systematizers of political economy before Marx, and in a sense are his precursors.

Their free trade and single-tax theories (that the state should live only on a portion of the *net product* paid to landlords), their harmonious philosophy (Mercier de la Rivière), their political influence on the French Revolution by way of Turgot (1727-1781) and Mirabeau (financial scheme of 1790) are not specifically related to Marx. But their economic analysis inspired him constantly.

Adam Smith

With Adam Smith (1723-1790; *Wealth of Nations,* 1776) the British political economy is as representative of manufactures, trade, and credit as the Physiocrats were of the agricultural era. With Smith's system we are not here concerned. It has been detailed in Cannan's *Theories of Production and Distribution.* His relation to Marxian thought is close on fundamentals.

Smith held that the entire value of the social product resolves itself into revenue, which are wages plus surplus-value, or, in his speech, wages plus profits (interest included) and ground rent. The consumers must pay the producers the full value of their products.

This is to say, the price of every commodity contains wages, interest, and rent or one or any two of these. Most commodity prices include all three. Out of the exchange value of commodities come the three sources of revenue. But this relates to gross income. Reproduction must be allowed for, and so wages, rent, profits divide only net income. Marx points out that Smith has counted profits twice, once as an income, and then as a source of reproduction. The reproduction comes out of the value of products to begin with.

Smith was the first to understand the distinction between means of production and consumption. He observed that means of production yield the revenue of laborers and capitalists but contribute nothing to the net revenue of society, whereas means of consumption although used as capital by the capitalists (as wages), is really a part of social revenue.

Here, in his old speech, he is close to the distinction between constant and variable capital (as wages) which Marx used for his identification of surplus-value.

His theory of price gets down to the notion that commodities sell for wages plus the surplus produced by labor (V plus S, variable capital plus surplus-value, in Marxian language). He contradicts these ideas constantly (Adam Smith was the host of a household of contradictions), but they are at the basis of his analysis.

But he does hold that profit and rent are deductions from the whole product of the laborer, or from the value of what he produces, and are equal to the additional labor, above his compensation; in other words, are a surplus-value over his wages. This too anticipates Marx, though crudely. Smith determines the value of a commodity by the quantity of labor which the worker adds to the object he labors on. But he turns in a circle, for he determines the wages of laborers by the value of what they consume and the value of what they consume by the additional labor put into the articles consumed.[5]

Smith has an elaborate system of political economy, so impressive that from it has flowed all American and British doctrine ever since. Here we are confined to a few generating ideas for Marx. Marx's critique of Adam Smith (in English) is available *in extenso* in Volume II of *Capital,* particularly pp. 415-450.

Ricardo

But the English economist to whom Marx owes most is the stockbroker, David Ricardo. In his *Principles of Political Economy and Taxation,* a relatively small book, one has the epitome of a society, such as that of Spanish civilization in Cervantes' *Don*

[5] If Smith had hit on the twofold nature of labor, he would have been led out of his circle.

Quixote or of the medieval church in the *Pantagruel* of Rabelais. Not that its stature rivals the works of those two masters, but its function is parallel. After Ricardo political economy becomes eclectic or psychological. It has rarely found his path again.[6]

That is not to say that Marx follows Ricardo. Both he and Engels are never tired of pointing out his confusions, inconsistencies, errors. He was so much the epitome of his class that he became the perfect target as well.

For Ricardo labor is the source of value, labor is the sole creator of all values. He formulates three laws of value. A working day of a given length always creates the same amount of value, no matter how much the productiveness of labor, and therefore the quantity of its products, or the price of each commodity it produces, may vary.

If the value of ten hours' work is a dollar, then more goods share that dollar if labor produces more. But time of labor is the total value. Ricardo consciously eliminates rare goods and declares himself concerned only with the mass of goods produced constantly by labor.

The second law is that the surplus value (Ricardo's "profit") increases as the value of labor (labor-power in Marx) diminishes. Since time of labor produces value, if part of that time goes to profit, labor gets less. An increase in the productiveness of labor reduces the value of labor (labor-power) whereas a decrease in productiveness increases its value. Marx corrects this principle, but it is close to his doctrine.

The third law is that increase or diminution in surplus-value is always a result of, and never a cause of, a corresponding change in magnitude of the value of labor-power.

Whatever their shortcomings gazetted by Marx, these three contributions are the directives of Marxian thought. For Ricardo the productiveness of labor is the source of profit as labor itself is the source of value. Marx traced his shortcomings to his inability to apprehend the importance (though he skirted about the fact) of the difference between use-value and value.

Prices, for Ricardo, are caused by a change in the value of money.

[6] Ricardo knew but *deliberately* ignored historical changes and forces outside economics.

Money declines in value when the quantity of currency rises above the amount of its intrinsic value (labor) and the intrinsic value of the commodities it exchanges against. This crude form of the quantity theory of money is interesting because of its relation to labor as money-value.

But it is the theory of rent by which Ricardo is immortalized. For him rent is the difference between the product obtained by the employment of equal quantities of labor and capital on two soils. Marx calls this differential rent. But his idea that cultivation must proceed from better to worse soils is rejected by Marx (*Capital,* Vol. III, pp. 772 *et seq.*). But it was by Ricardo that the foundations of the theory of rent were laid once and for all, and only an eccentric thinker like the American protectionist, Carey and his school, have contested it.[7]

Ricardo improved on Adam Smith by denying that rent is an element in price. Rent is rather the quantity of a tribute which was itself based on price.

Ricardo takes the magnitude of value as fundamental and analyzes its components, distributed as wages, profits, etc., whereas Smith has built it up from the components, additively.

The speculative superiority of Ricardo (a true pun; he made millions in stock-exchange speculation) to Adam Smith continues throughout.

In Engels's introduction to the third volume of *Capital* (p. 25 *et seq.*) Ricardo's limited theory of "value of labor" and its consequent errors are carefully assessed against the subsequent refinements of Marx. The subtle analysis by Marx of the confusion in Ricardo of fixed and circulating capital with constant and variable capital should be read as a post-graduate course in economic distinctions (*Capital,* Vol. II, pp. 245-259). But nothing that Marx criticized prevented him from rendering homage to the man whose theory of value and profit and rent are the pillars of political economy.

The only classical economist that Marx followed after Ricardo was the Genevan Sismondi, who was fully conscious of the limitations of the market due to the class relations of capitalists and

[7] And some modern economists like Fetter give it a curious meaning.

laborers, and whose theory of underconsumption, although naïve, senses the basic class relations. From that point on, Marx relies only on the Utopian Socialists.

Sismondi (1773-1842) was not only the last term of classical economy, he is the herald of a type of socialist thinking that persists, under a dozen forms, in every non-Marxian school from Lasalle and Rodbertus down to Rosa Luxemburg and John A. Hobson, and even to the "social credit" groups (who are also modern disciples of Proudhon).[8] Sismondi's influence, on both Marx and non-Marxians, is gigantic (though in wholly different ways). The Russian populists (Nardoniks) took their economic system from Sismondi.

Sismondi was aware of the hesitations of Ricardo. He saw that the inner contradictions of his labor theory might easily lead to its being vulgarized as a cost-of-production theory, rather than a labor-theory of value; in fact, this was what happened: John Stuart Mill geared political economy into cost theories (thereby leading to the subjective school of Jevons, that cost determines supply, and hence affects "utility") whereas Marx geared it into labor-theory, but on a higher plane. Sismondi sought to build a system that would give Ricardo's production scheme a meaning in the sphere of circulation.[9]

Sismondi held that the capitalist, by his command over labor, takes over the larger part of its production and forces it down to a subsistence level. But he deserves that part of his profits that inhere to management, and this is interest. Sismondi explains the spoliation of labor but not the constant repetition of profits in a recurring scheme of production.

He discovered that general crises were possible, that they would be periodic, and, by studying the mode in which capital moves from cycle to cycle, he became the founder of economic dynamics.

[8] According to H. Grossman, even Boudin and Cunow, famed Marxians, have fallen into Sismondi's errors. Owing to the consequences of Sismondi's theories on political action, Lenin frequently attacked his presuppositions.

[9] Both Gonner and Davenport have tried to reduce the direct labor-value theory of Ricardo, pointing to its exceptions; they have added little to Sismondi.

Naturally Marx's extremely kinetic view of economic theory comes more from him than from Ricardo.

Sismondi held that in a capitalist society, the extent and direction of economic activity is determined by exchange value but it is the uneven technological development of each branch of production that puts industry in a state of flux. But he looked for the base of that unequal development outside production (in consumption); Marx within production.

Therefore he repudiated the "price system" and thought production should be measured by the quantity of useful goods. But capitalism, he saw, has nothing to do with this aim. Sismondi too, for the first time in political economy, concentrated on the difference between gross production and net profits: one might contradict the other, and this led to his suspicion of capitalism.[10]

Despite the disavowal and refutation of his theory by Rosa Luxemburg, the Sismondi theories, against which Marx erected his entire concept of accumulation, held her in a vise. Marx makes the contradiction between social production and private appropriation, in a system requiring reproduction, both effect itself and contradict itself in the relations between two branches, the production and consumption sections of all production. For Marx the system can reproduce for long periods within that contradiction.

But Sismondism, by ignoring the two characters of labor, social and useful (social, as contradicted), failed to understand the process of reproduction, and thus believed that capitalism can keep alive only by plunder outside of the system, or by dumping.

Sismondi assumes that variable capital and surplus-value are the only production factors; he forgets the transfer of constant capital. Hence he assumes that consumption must equal production, unlike Marx, who saw that consumption merely gives the *limits* to production.

Sismondi anticipated Marx in that he saw that the ruin of the peasantry and the middle class is a factor in building capitalism. He assumed that the ruin of these two classes destroyed the internal

[10] Sismondi's underconsumptionist theories were given in literary guise; an old friend of Mme. de Staël, colorful history and the study of literature were his main interests; political economy an amazing side-interest.

market for commodities, whereas, for the primitive peasant, who produced all his own needs, his emigration to the city, or his entry into cash crops only, increased the market for goods. Capitalism relies on replacing domestic economy and barter economy by cash sales: that is a type of primitive accumulation.

Sismondi was probably too early a writer to see that the constant rising of the ratio of constant capital to variable means that for long periods the demand for that constant capital alone would keep the system going. Today it is the essence of the capitalist system as a going affair, although the ultimate consumer's demand for the less important consumers' goods, though much smaller statistically, still is the *end of the series*. But this consumption is itself determined by employment in means of production, so long as that endures.

Utopian Socialists

The first of these in importance was Robert Owen, a wealthy manufacturer. It is interesting to note that the founders of socialism were Owen (a millionaire), Fourier (a rich merchant), Saint-Simon (of the legendary nobility of France), Marx (of rich merchant stock), and in economic doctrine the multimillionaire David Ricardo. The crude theory of economic determination can scarcely support a greater shock.

Robert Owen

Owen published his *New View of Society* in 1813. There was a ferment of radicalism about everywhere. The anarchist thinking of William Godwin and his son-in-law Shelley (also a millionaire) indicated that fundamental economic thought was on the way.

In his notes to *Queen Mab* in 1812, Shelley illumines the whole problem of surplus labor-time, and understands what we call capital as a social relationship. He quotes and glosses Godwin:

"Wealth is a power—of the few to compel the many to labor for their benefit."

"These hours which were not required for the production of necessaries"—may enlarge our stock of knowledge, refining our taste, etc. The hours of labor, surplus hours for the rich, are noted.

Nor is Shelley unhistorical. He is as explicit as Engels. "It was

perhaps necessary that a period of monopoly and oppression should subsist before a period of cultivated equality could subsist." He notes that "employments are lucrative in an inverse ratio to their usefulness."

From the soil of the French Revolution, the seed of the industrial revolution sprouted the understanding of social contradictions.

After the stirring of men's minds, though it was directed to the profit of the rich peasantry and the bourgeoisie, and though the revolutionists became Emperor, marquises, and dukes, the breaking up of the old society ended, once and for all, the established order of things.

Among the bourgeoisie men like Jefferson become normal, poets like Shelley and Byron break off from their class, millionaires like Ricardo and Owen ask why they are rich. Owen, who alone among manufacturers had been humane, philanthropic, and had encouraged co-operation among his work-people, and still made a fortune, was the first purely communist thinker who based his conclusions on political economy.

A giant manufacturer (for his time one of the largest in the world), he was puzzled by the immense development of productive forces and the poverty of the workers that produced so much more wealth than formerly.

Machines were invented steadily to save labor and yet labor always worked as much! Like John Stuart Mill he was puzzled that all the mechanical inventions made had not lightened the day's labor of a single worker. He then fell back on commercial calculation.

In the meantime he never ceased acting as a practical reformer. He had a beautiful, simple face, a natural eloquence, and he stirred men to their depths by his pleadings. He persuaded Parliament for the first time to limit the hours of work of women and children. The precedent of social regulation of industry was established by his efforts.

When trades unionism was still a conspiracy and crime, he fought down the barbarous law that treated the joining of "servants" against "masters" as though it were mutiny.

Although an employer he was invited to preside at the first gen-

eral trades union meeting in Great Britain. He was the typical businessman turned Messiah: he thought the world could be arranged like his business, and that schemes like those that would make money would save mankind.

He believed in "labor-money," like Proudhon after him and a multitude of theorists since. He believed in establishing communist colonies and lost a great fortune in New Harmony, as he called his ideal settlement in America. He opposed strife and violence, holding that the gateway to the worker's heaven could never be hatred but only perfect love. It is easy to travesty the errors of an Owen; it is not so easy to recapture his immense talent.

His *Book of the New Moral World* supplements the co-operative and analytical sections of the *New View of Society*. But here he opposed private property, marriage, and religion, at least as they existed in his time. For him each must labor and each has an equal right in the product, according to his age. The future communist world is not only sighed for; it is also schemed, diagrammed, its modes of circulation fixed as well as of manufacture.

But above all it was the economic perception of Owen as a manufacturer, that the production process was fundamental, circulation derivative; of the contradiction between productive forces and their class utilization; and of the possibilities of technology, that led on to the Marxian doctrine and separated Owen from eighteenth-century communists like Morelly and Mably and the English radical, Godwin.[11]

Charles Fourier

Owen was humane and practical, but he was not critical and he did not understand the political superstructure of the economic basis. Two Frenchmen are responsible for this clarification, Charles Fourier and Saint-Simon.

Fourier was a man in whom an analytical genius was allied to the most fanciful concepts. The latter have made him the butt of

[11] Other ideas of Owen that inspired Engels were the end of the town-country difference; his environmentalism, which meant that circumstances determine men's individual and collective acts; his theory that society from now on required collective and not individual actions to remedy defects.

vulgar minds. He was convinced that under Socialism the sea would be turned into lemonade and that France would have forty million Homers and Newtons instead of nearly forty million nobodies.

These aspects of his thought, as also the terrifically detailed pictures of *phalansteries*, or integrated communal production groups, are stressed in most studies of the man.

Palgrave's *Dictionary of Political Economy* descends to this low level, as it does in some other articles. It is by this means that unoriginal and cowardly commentators assail the reputations of pioneers.

Fourier had the weaknesses of originality. The same type of mind that makes a man question everything and explore to the depths, makes him wish to put up structures to the heavens. Unlimited curiosity and honesty is free of social limits and social shame. The sterile soul that sniffs books safely in the dead ranks of library shelves defends itself by attacking the men that dared. But Fourier must be appraised not by his weaknesses, for in those he is similar to men that have left no mark, but by his immense contribution.

That was the complete inventory and criticism of bourgeois society. When the French Revolution had given rise to the most financial society yet known, Fourier tried to analyze the failure of all the ideals of the revolution, liberty, equality, fraternity.

He analyzed the structure of society with a wealth of wit and satire but also with a study of the genesis of all these social forms in the mode of production and acquisition of wealth.

He sees it, unlike Owen, as an evolution. All these ideas are commonplace to us now, but we owe them mainly to Fourier. He was the first to perceive that every institution, as it evolves, achieves the opposite of what it set out to do. He saw that the cause of poverty was not the absence of goods but their presence in abundance. Engels says that Fourier understands dialectics as well as the German philosophers but with French gaiety and sparkle. Marx learned the application of the dialectical method, especially to political economy, from Fourier.

Fourier analyzed inefficiency in production and exchange, and this at a time when everyone was impressed by the dizzy gains in production due to the innovation of capitalism. He saw that the

bulk of society's forces are not engaged in production at all. His catalogue of waste is interesting:

First Waste: Useless or destructive labor.
(1) the army (2) the idle rich (3) ne'er-do-wells (4) sharpers (5) prostitutes (6) magistrates (7) police (8) lawyers (9) philosophical cranks (10) bureaucrats (11) spies (12) priests and clergymen

Second Waste: Misdirected work, since society makes it repellent, and not a vehicle of man's personality, attractive to him.
(*a*) Deflection of the passions into greed and morbidity, instead of their being utilized as society's motors.
(*b*) Scale of production too small to utilize labor properly (this has certainly been altered since Fourier's day).
(*c*) No co-operation.
(*d*) No control of production.
(*e*) No adjustment of supply to demand, except by the mechanism of the "blind" market.
(*f*) The family: this economic and educational unit is absurdly small.

Third Waste: Commerce dominated by middlemen.
It takes a hundred men to do what society, with warehouses, distributed according to need, could do with one. A hundred men sit at counters, wasting hours waiting for someone to enter, a hundred people write inventories, etc., competitively. (This later became the platitude of socialist street speakers, who contrasted the one postman with the three or four milkmen or grocer's boys doing the same rounds.) These hundred wasted merchants eat without producing.

Fourth Waste: Wage labor in indirect servitude; cost of class antagonisms. Since class interests are opposed, the costs keeping men divided are greater than the gains in making them co-operate.

Fourier concludes that one-third of the people really work at something useful and the other two-thirds, no matter how much they buzz about, do no real work but are parasitic. And even this useful third receive no proper workers' training, due to class corruption and distortion, and so they work poorly.

Society for Fourier will run a history parallel to the individual and must eventually die of old age. It has eight periods, from youth to senility, and we are now in the fifth. Unless man rejuvenates himself, the present gradual concentration of wealth, united to financial power, will produce a new feudalism and abolish the democratic gains of the French Revolution. This will lead to increasing misery for the many. This is a concrete anticipation of Marx.

Fourier called himself a "sergeant of trade." He was a thriving merchant in Marseilles, and as Skelton so well puts it, "he analyzed waste with Poe-like imagination," although he reproaches Fourier with his rectangular temperament.

Fourier, who hated industrialism, commerce, and finance, thought, like Owen, that the way out was by way of communal colonies. But unlike Owen he rejected communism and quaintly maintained even shares of stock and dividends in his communal society.

His influence on American thought was very important. Fourierists and Cabetists (an offspring sect) established colonies in the promised land, America. The Utopian movement described by Noyes and Hillquit in America was of Fourierist as well as Owenite origins. In New England it led to the Brook Farm experiment. Emerson and Whitman were affected by it. The American, Brisbane (father of the journalist who spent his life preaching the opposite), was the systematizer of Fourier's thought in America. Nowhere has it left so deep a mark as in the United States, except for its effect on Marx himself.

Saint-Simon

Of the three founders of Socialism, Claude Henri de Rouvray, Comte de Saint-Simon, is much the biggest man. Of that bizarre family of aristocrats,[12] always on the periphery of the noble order, he thought for himself from youth.

The French Revolution, which ended his class, conjured up his system. He saw that the Revolution was not a collection of phrases, party cries, and theories. He saw that it was not made up of the

[12] Alleged descendants of Charlemagne.

"mob" against the "aristocrats." For liquidating the version of history that still dominates the moving-picture industry, we are indebted to Saint-Simon. It was for him a conflict between the feudal elements, who owned the soil, the bourgeoisie who owned factories and ran commerce, and the poor workers and peasants. Property was at the base of ideas and parties.

Politics, he said later, is merely the science of production and as society becomes more complex, politics as such must fade and disappear into economics. At a time when diplomats and generals were still thought to create history, to have moved its habitation from the salon to the factory and railroad required a prophetic brain.

The state will go like any other device when economic society can regulate itself without that archaic contrivance.

Saint-Simon founded a new religion, which had offspring sects. Outside of political economy there are no *socialist* notions in Marx that (apart from their special setting) are not to be found in his works.

That is not to say that he worked out the import of all he conjectured. But he was so suggestive in his study of the historical framework of economics and the meaning of history that Marx is indirectly his scholar. His socialism was esthetic and aristocratic and mystical; that would not much impress Marx.

But his *Nouveau Monde Industriel* contains an astonishing number of ideas that recur in Marx, in the economic sphere as well. His immediate scheme was "the constant amelioration of the condition of the poorest and most numerous class." For all that, he thought they required false ideas to keep them happy.

"Physics for the educated and Deism for the lowly" was his aristocratic epigram. Nor was Saint-Simon wholly materialistic in history, sharp as were his ideas. He believed in the abstract idea of progress, like his worshiped Condorcet who expiated the belief in the Terror. His motto, "From each according to his capacity, to each what he produces," was made by Marx the watchword of the Socialist society to precede the Communist, "from each according to his capacities, to each according to his needs."

It was from Saint-Simon that Marx learned that a social struc-

ture—a new one, that is—*can be built only on the data of the society that exists,* not of the one that one wishes.

Above all, it was from Saint-Simon that Marx learned the use of the word "class" as he employs it, as a group dependent on a particular mode of production relations, and as explaining the movement of history.

That is the opening paragraph of the *Communist Manifesto.* Historians like Mignet, Thierry, and Guizot, though bourgeois, took over Saint-Simon's economic and class ideas and remade their science: their perceptions were more significant than those of the technically more advanced Germans like Ranke. Guizot plainly stated that history is class struggle.

It is little wonder that a man like Saint-Simon who opened so many vistas came, after bis death, to be regarded by some forty thousand people as the reincarnation of an aspect of Jesus, as the incarnation of social dogma, as Christ was of the Godhead. A large number of the most active intelligences in Europe were seduced by this temporary adoration.

Saint-Simon was more scientific than other "Utopians." He, too, held that private property was an evil, and was a rigbt to receive an unearned income from the industry of others. Both capitalists and landed proprietors are the depositories of the past labor of others. This takes the shape of instruments of labor. Thus they collect rents and interest.

But Saint-Simon held that the *entrepreneur* suffered too, thougb less than the laborers. The exploitation of labor by wages is disguised slavery. The employment contract is not free. It is money-bags *versus* an empty stomach. Production is therefore badly organized and distribution unjustly effected.

Each period contains in itself the germ of its successor. Saint-Simon held that although history has governed up to now, his new principle of association would terminate change, in that sense, by the power of ideas. At no point has he asked, How is capital accumulated and renewed? For him it is conveyed by heredity out of past plunder, and the hereditary owners use the past instruments of labor to extort gain. This was a natural philosophy to a hereditary nobleman.

From his economic ideas flowed the notion that credit diffusion would save mankind by credit co-operatives. A large number of bankers and railroad promoters began as Saint-Simonians and decided that the large corporation with shares was the principle of association he forecast. De Lesseps who built the Panama Canal, the Pereire brothers who financed railroads, etc., were Saint-Simonians.

His disciples, Father Enfantin, Bazard, Pecqueur, Cabet, Considérant, mostly formed societies based on Saint-Simonian ideas, in the Mississippi Valley and in Texas, by way of New Orleans which naturally attracted Frenchmen. At Nauvoo, where the communistically inclined Mormons met their Calvary, the most thriving settlement was made.

Despite his socialism, Saint-Simon's theory that technicians, businessmen, and bankers were the natural leaders of socialist communities and that ideas alone were paramount, once classes were liquidated, led to easy divergences from his original idealism.

The sources here given do not exhaust the immediate inspirers of Marx. William Thompson, with his suggestive ideas on labor and the ratio of accumulated wealth to current and future production, is extremely important.[13]

The Ricardian Socialists and Chartists

The English workers, in the full flush of early trades unionism and Chartism, were quick to see the implications of Ricardo's doctrines. The Irish landlord, William Thompson, invented the expression "surplus value," from which Menger pedantically assumes that Marx "took" the idea. Really it was a convenient name for Ricardo's profit-idea. Thompson also saw that the total labor of man was about three years' production, and that even of that, the productive elements were less than the total, so that the capital that people strive to preserve cannot be the secret of their conservatism, but its ability to extract profit forever is what causes the upper classes to defend "property." What they are defending is not property at all; their mantelpieces and chairs would let them starve, after a few

[13] See the informative *Right to the Full Produce of Labor* by Anton Menger (London, 1891); philosophically weak but excellent history.

months, if they did not exploit labor by the instruments of production they owned. The wealth of man is knowledge and co-operation for continuous production.

From the day of Thomas Spence (about 1780), who saw the meaning of rent as no one until Marx did, and Charles Hall, who held that the poor are robbed of seven-eighths of their income, English labor was awaiting an economic theory. At first it explored carefully. Hodgskin was more acute in stating the labor theory of value than Ricardo himself, and saw that it led to class struggle, but he distinguished lazy from productive rich people. John Gray said that barter was the true basis of exchange and that money falsifies values. National warehouses should determine prices based on labor value. The *Poor Man's Guardian* in 1831 took up the song

Wages should form the price of goods,
    Yes, wages should be all.
Then we who have to make the goods
    Should justly have them all.
But if the price be made of rent,
    Tithes, taxes, profits, all—
Then we who have to make the goods,
    Shall just have none at all.

The so-called English sources of Marx were thus a compound of "natural justice" advocates and post-Ricardian Socialists.

Nor were honest men wanting among the Tories. Malthus, arch-defender of the social order, held that there must always be a basic disharmony of three classes, the workers, landlords, and capitalists, but he based this everlasting unhappy prospect on the struggle for subsistence whereas Ricardo based it on the nature of exchange.

Further French Sources

The French sources of Marx, apart from the two greatest thinkers, were more in the realm of practice and in acute detailed studies of concentration. French conspiracies had been endemic since Buonarotti, a disciple of the martyred Babeuf, had revived revolutionary conspiracy in 1820. Marx began his revolutionary activity as a conspirator in the secret League of the Communists, allied to the older secret League of the Just. From these sources, be obtained

the correlation of theory with action that was to distinguish his economic theory from all precedent systems.

Babeuf (1760-1797) saw that if liberty, equality, and fraternity were to be more than words, a type of co-operation must replace competition. These ideas were current enough in Paris during the Terror. Saint-Just, the right-hand man of Robespierre held ideas of state, revolution, and political economy that sound as though they might have been written in 1939. The Paris commune of 1793 that defied the armies of the world was based on the artisans, the little shopkeepers, and the workers.

When Robespierre fell, Babeuf asked what class forces broke that power. He became the first militant revolutionist, allying theoretical communism to political action. His failure was due to the embryonic state of the proletariat and the absence of material conditions—that is, large-scale production—prerequisite to its emancipation. Unlike Winstanley's, in Cromwell's time, this was the first non-religious, economic, theoretically formed communism based on class action. On the side of history, Babeuf is the ancestor of Marx.

His greatest disciple was *L. A. Blanqui* (1805-1881), "the eternal prisoner." Brother of one of the most distinguished academic economists in Europe, he forsook honors for conspiracy. For him, only one class can be relied on for the revolution, the *proletariat.* This immense contribution to Marx remains his monument. The workers were to be the nucleus of a change of class-power, and the peasants were to be placated. The problem was first of all capitalism, then agriculture. His other economic studies are also valuable.

Unfortunately Blanqui is remembered by most extremely haughty Marxians as a man who overrated conspiracy. That is a travesty. Marx esteemed him highly, despite his dramatic errors, and he was a potent factor in molding Marx's system. Then too, his political realism has caused Benedetto Croce to say, with justice, that through this channel Marx became the most remarkable continuer of Machiavelli.

On the economic side, *Louis Blanc* (1811-1882) is important. His *Organisation du Travail* in 1839 is a landmark of socialist theory. Unlike the English socialists, the French were concerned with economic tendencies. They were not steeped in the Bible and

so mistrusted eternal wisdom. He coined the phrase "from each according to his ability, to each according to his needs."

He believed that social, universal workshops should be established until social capital was collectively owned.

It was the first time anyone had sought a realistic industrial method, based on what existed, as a lever to bring about Socialism. In its early stages, the compensation for labor was to be based on time devoted to work. It is not to the point that Blanc proved an opportunist and shabby political type. His scheme of National Workshops was the first demand of the Paris workers in 1848 and was shamelessly sabotaged by Thomas, the government agent in charge, so that for fifty years it could be cited triumphantly to show that "socialism can't work."

Louis Blanc, also, formulated the idea of the inevitable concentration of capital more concretely than did Fourier. Both Considérant and Pecqueur declared that cheap prices would cripple the small producer and lead to large scale production, which alone could cheapen costs to meet lower prices. Either feudalism or social ownership would be the only alternatives when this developed. It was Louis Blanc who stated that cheap prices must lead to concentration and then to centralization, and used the phrase, "large capitalists eat up the small."

To sum up: "Surplus-value," with no reference to its source, the twofold nature of labor, comes by way of Turgot, Godwin, Hall, and Thompson, through Ricardo as the theoretical foundation. But it is not Marx's idea at all, merely the notions that must have set him to his task, which was to find out why there was a profit not realized exclusively in production or in distribution.

The theory of concentration was suggested, in some outlines and even as to its mechanics, by Fourier, Blanc, Considérant, Pecqueur.

The class struggle came from Saint-Simon, Thierry, Guizot.

Dynamic economics came from Sismondi, and also the idea that classical economy had turned into its opposite, socialism.

The periodicity and necessity of crises, as formal ideas, came also from Sismondi, Owen, Fourier.

The proletariat as the lone carrier of revolution to begin with, was Blanqui's idea.

But all these together, and the others detailed before, no more explain Marx and Engels than the predecessors of Shakespeare explain Shakespeare. Neither Marlowe's blank verse nor the sonnet forms of Sidney explain the syncretic genius of Shakespeare. Nor does a collection of snippets explain the total systematic work of Marx, nor the fact that the only Socialism that ever moved the masses and concerns the thinkers of the world is Marx's.

The miserably inadequate socialist fantasies of Immanuel Kant and Fichte, their philosophers' closed economies in a pocket-handkerchief state, are not his sources either, *pace* economic historians, any more than Plato's *Republic* is. The "true" German socialists or communists, such as Weitling, Hess, Grün, could have suggested little to that acute mind.

Marx transformed the economic theory of socialism, first, from ethical to scientific; second, from "socialist"—that is, static—schemes to what he termed communism—that is, a kinetic scheme; third, it directed attention from the future to a realistic critique of the present, as the only source of the future; fourth, it excluded utopianism; fifth, it held for evolution; sixth, it denied class co-operation or philanthropy and was based on class struggle; seventh, it was historic, it held that the role of the working class was not made because it incarnated justice, as Blanqui thought, but that certain material conditions made it significant as the future class. Eighth, it held that man was determined basically by his modes of production relations and their interplay with techniques; and ninth, that man could remold history, within obedience to a given set of facts.

From that point on, dead ideas in all his predecessors sprang into life, for they were of the stuff of man's experience. Marx counted with his environment, and yet made it serve as an economic horoscope. No phrase like concentration of capital, or surplus value, or profit, or labor-time has anything like the same meaning hereafter in Marx as in his predecessors, to whom, nevertheless, he was so much indebted.

If anything, there has been too much of an attempt, on the part of those who seek to reduce the historic significance of Marx, to state that he took whole sections of his economic theory from Ravenstone, Hodgskin, Thompson, Bray, etc. Of course on so per-

vasive a theme as labor and production, hundreds of ideas are bound to converge in sharp intelligences, but regrettably mostly as isolated observations or as fragments of a system, at best.

German Historic Sources

Marx was educated in Germany at a time when the worship of history was almost excessive. When Böckh in his *Political Economy of the Athenians,* published in 1818, demonstrated the role of the silver mines of Larium in the Athenian policies, he upset idealistic ancient history for an economic outlook.

Moser's *History of Osnabruck* had given the German mind an economic-historical outlook that had no match in Europe until Thierry, Mignet, and Guizot wrote in France. When Marx studied, German economy of the bourgeois type, like that of List, aimed at a historic base for economics, and so did the unmethodical Roscher.

Those who wish to recreate this atmosphere (but they must really be equipped) should read Lord Acton's "German Schools of History" in the *English Historical Review,* Volume I. A good description of their methods and enthusiasms, above all of Ranke, is given in Gooch's elegant but somewhat disappointing *History and Historians of the Nineteenth Century.*

Marx's Rivals

In his lifetime Marx had four rivals whose theories for a time enjoyed a popularity equaling or surpassing his. These were the Anarchists, P. J. Proudhon and Michael Bakunin, and the Socialists, Ferdinand Lasalle and Karl Rodbertus. That is not to say that these exhausted the roll-call of socialist theoreticians, many of whom were sharp and suggestive in thinking. Some of the greatest names in the Socialist movement, though, were not strong in economic thinking. Such was the grand old man of revolution, Blanqui, who taught Marx much in tactics but little in political economy.

There were all sorts of systematic economic critics such as the remarkable Russian (whose long name torments Anglo-Saxons), Tschernischewski, and the systematic Lavroff.[14] But the four men mentioned above stand out as conspicuous in socialist theory as John

[14] Benoit Malon (1841-1893), in his *Socialisme Intégral* (1879), rejected historic materialism for preconceived ideas of justice implicit in the masses. This affected the Russian "Narodniks."

Stuart Mill then was in bourgeois economics. (He too became a state socialist in later life, but his conversion was largely sentimental.)

One other influence must be noted. It was outside of political economy but it influenced Marx and Engels extremely. That was Charles Darwin, whose *Origin of Species* came out in 1859, the same year as Marx's first great economic essay, *Critique of Political Economy.*

Darwin was interpreted by Marx and Engels in a Hegelian and Socialist manner, an interpretation exactly the opposite of that of the individualists Huxley and Spencer.

The Socialist summing up of some of his lessons, though, was left to an Anarchist, the geographer, Prince Peter Kropotkin, whose *Mutual Aid* remains the most suggestive biological summary of co-operative effort in biology and human endeavor ever produced, one that annulled the vulgar axiom of the "survival of the fittest."

Proudhon

First in time comes Proudhon. He is not the most important of the Anarchists; in fact, for clear economic thinking he must yield pride of place to two good Yankee Anarchists, Josiah Warren and Stephen Pearl Andrews.

But a man must be judged by his influence as well, and Proudhon's ideas are not only still popular with Anarchists, but from him comes every type of currency idea, such as "credit currency," that enchant the declassed elements from bankrupt grocers down to futurist poets.

He bases his theory on an ethical indictment, "Property is theft." We must leave out of account his theory of autonomous groups (still the gospel of a million workers in Spain) and his hostility to trades unionism (to which these Spanish disciples emphatically dissent). His economic theory turns on how to annul the theft called property. He proposes to attack the problem in the sphere of circulation, in that of credit.

Interest on money loaned is at the source of all economic dislocation. The lender sells the same article over and over again (money) and receives its price over and over again (interest) and still owns it.

But a man who sells a hat sells it for good; he has the money, his client has the hat.

As Marx says, he never sees that selling is an act of conserving the value you have for you yield it only for an equivalent. If the seller has surplus-value in the value of hat (and he usually has), then he conserves the increase of value in it with every dollar of money he takes in in exchange for it. He has the same surplus and yet, since he sold the hat at its value, retains the same original value as the moneylender.

Of course, where Proudhon adds the cost of interest to the cost of the hat, Marx assumes that the interest is a division of surplus-value already embodied in the hat.

Hence the talk of "interest-slavery" of the capitalist to the banker (used by Hitler and Feder as vote-bait and promptly forgotten) is to Marx a superficial form of accounting.

But it immensely impressed even Saint-Simon financiers, and such important politicians as Napoleon III were affected by Proudhon's ideas that cheap and abundant credit reduced industrial costs. For that reason the Bank of France has since discounted notes so small that no American bank would ever look at them. As part of the political defenses of the little shopkeeper and independent artisan in France and the Latin countries, it is impossible to overrate Proudhon's influence.[15]

He is rigorous in his definition of an economic class. To him, the receipt of interest meant that the same men who loaned money would be the men that forever controlled credit and owned capital. His system was made the subject of attack by Marx in his polemic *The Poverty of Philosophy,* a reply to Proudhon's *Philosophy of Poverty.* Despite its rather elephantine humor, it is decisive, and only the Anarchists still think Proudhon survived the engagement.

Bonar, in *Philosophy and Political Economy,* says that in the then tone of controversy, Marx was really comparatively moderate. What irritated Marx was Proudhon's true statement that political economy was a dismal science without philosophy, and then the shoddy Hegelianism he retailed.

[15] See the speeches of the French banker, Lanson, in my novel *The World Is Mine.* [*Author.*]

He also resented Proudhon's calm appropriation of the "productive association" ideas of Louis Blanc.

The most valuable part of Marx's economic examination is that of the so-called *droit d'aubaine* or right of toll which Proudhon held required the laborer to pay back, in prices for goods consumed, the surplus above what he was paid in wages. That is, he constantly rewarded the capitalists for plundering him. Marx's exposure of this shallow radicalism is much required today.

For all that, Proudhon's followers were so powerful in the labor movement that Marx had to combine with them in the First International Workingmen's Association. In the Paris Commune, the Proudhonists did yeoman service in the financial organization of that short-lived but significant revolution.

Proudhonism has dogged the footsteps of Marxism from 1847 to the present day. Its type of thinking is the standard "radical" approach throughout the world. It is common to currency reformers and fascists (in theory), and its isolation of the banker as the source of all evil is extremely popular. But it lacks any understanding of the totality of production relations, and is gaseous.

Bakunin

The teachings of Michael Bakunin were wholly different. He favored trades unionism of an aggressive sort and from him flows the fighting Anarchist and later (through a Frenchman, Sorel) [16] the Syndicalist doctrine. This is a form of what is termed "economism."

That is the notion that all political action and reference is anti-economic, purely predatory, and evil and that prior to the realization of any ordered economy, the state must be destroyed, and by force.

Bakunin must then think of the state as an active force, above society, but as imposing the domination of the rich. In addition he requires militant atheism, since God is only another name for the police, for a force above man, who is himself the highest good.

Bakunin is a communist in the primitive sense; that is, he favors free, autonomous communes (on a collectivist basis), self-sustaining

[16] Really Sorel was a disciple of Lagardelle.

as to means of subsistence, but making arrangement by fluid treaties with other groups for superfluities and transport.

Modified into anarchist communism by Malatesta, the theory has been carried into detail (and the collectivist idea altered) by Kropotkin in *Fields, Factories and Workshops* and by the Spanish Anarchist-economist, the resourceful Santillana.

The anarchist, unlike the Marxian, will not accept the capitalist system as given, as the basis for analysis, and the study of its actual tendencies as a substitute for immediate action. For the Marxian, political economy is the science of the capitalist system; when that goes political economy goes with it. For the Bakuninists, political economy is a normative science, that is, one that sets standards by which the capitalist system is to be judged.

As Marx rejected any analysis that did not conscientiously observe the real and eliminate the wishful, the controversy between his followers and those of Bakunin was bitter and never has been healed.

They regard Marx as a man who merely takes over the whole of the capitalist mistakes—giant factories, mass production, immense cities—and rivets them onto the workers forever with a socialist bureaucracy.

For them the function of revolution is not to understand but to annihilate that which is not worth understanding because it is so vile. The lifetime behavior of Thoreau, for example, would have been cheerfully endorsed by Bakunin were it not for his mildness. The questions this raises are outside of political economy. But that is not to say that the economic work of such men as Kropotkin is not important and deserving of high respect.

Ferdinand Lasalle

The Socialist thinker who has enjoyed a following rivaling that of Marx was the German lawyer, orator, and economist Ferdinand Lasalle. In his short but hectic life he made far more noise than Marx ever did. Bismarck treated with him and his political pronouncements were European news.

He is a direct follower of Ricardo. He holds that labor creates all wealth and that the "iron law of wages" makes it certain that

they will always fall to the lowest level at which life can be sustained.

From that point of view, it is clear that the working class has no interest in taxation, since if it is merely paid enough to live on, then it is without a cent of surplus and all the questions raised by statesmen such as protection of free trade, or bigh or low taxes, or sound and unsound money are all bourgeois swindles and do not concern them.

The "iron law of wages" of Lasalle is often confounded with the subtle Marxian doctrine, and it has left traces in ostensibly socialist movements, especially in the United States. The most brilliant, polemieal Marxian advocate this country has seen, Daniel de Leon (once of Columbia University), followed the Lasallean doctrine in such matters as taxation as though Marx had believed this.[17]

Lasalle held that eapital is a means of production, that managers in factories help produce wealth (not extract surplus-value), etc.

The influence of Lasalle, like that of Fourier, Owen, and Saint-Simon, was rather on intellectuals and leaders than on the workers and their trades unions. That piqued him and, perhaps, made him exaggerate economic dogmas like the "iron law of wages," and demand the "full product of labor."

He held that compared to the working class all other classes form a homogeneous reactionary mass.

Lasalle did not distinguish between labor and labor-power.

What is worse, if Lasalle had to state why the "iron law of wages" prevailed, he would have to formulate two arguments. One that there is a perennial oversupply of laborers, which is the argument of Malthus and is certainly no argument for socialism, or secondly, he would have to assume that if labor was the only creator of wealth, and the worker's subsistence *had* to sink lower all the time, that he was "robbed" of the full produce of his labor.

In other words, Lasalle would have been forced to biologieal or ethical outlets for his wretchedly thought-out economic system.

What has remained of Lasalle are his extremely amusing pamph-

[17] See the pamphlet of John D. Goerke published by the Socialist Labor Party (followers of Daniel de Leon) on "Taxation."

lets and his ability to stamp vulgar coins, so that if the man in the street and even the average socialist were asked what was Marxian Socialism, he would define it in Lasallean terms.[18]

Rodbertus

The last of the four rivals was a Prussian Junker, Karl von Rodbertus-Jagetzow (1805-1875). He was a systematic thinker, ponderous, sharp, and extremely belligerent. He was convinced that important doctrines of Marx had been pilfered from his writings, including that of surplus-value, interest, and rent.

As he had been Minister of Commerce of Prussia when Marx was a revolutionist, his charges were given weight. He wrote a treatise, later called *Capital,* and one on *The Demands of the Working Class,* among a host of others.

A landlord and rural gentleman, he saw all of political economy as comprehended in the forms of rent payments customary in his region.

Rent is the addition of ground rent and profit and it represents a deduction of value from the wages of labor. Wages represent only a part of the value of a given product. If labor is sufficiently productive wages need not be "equal to the natural exchange value of labor's product" so that a surplus can be left for the replacement of capital and for "rent."

So far we are not ahead of, nor even as clear as, Ricardo and his advanced disciples. But Rodbertus became for the German scholars, above all, the exemplar of critical socialism and Böhm-Bawerk ranked him with Marx (even higher) as an advocate of what he chose to term the "exploitation theory of interest." This is part (perhaps unconsciously) of the systematic denigration of Marx.

Actually Rodbertus held that any theory of surplus-value, as created by labor, was purely conceptual and did not apply to our present society. He was an underconsumptionist like Sismondi. Rodbertus held the surprising view that the mass of capital was immaterial to profits. The higher the capital, the higher the mass of profits, the lower, the less, but the *rate* never changes. That

[18] Many commonly used economics textbooks would confirm this.

means that the capitalists of this earth who have tried to increase the rate of profits by concentration were subject to a collective economic hallucination.

It is true that if prices expressed in changes of money, alter, or if the proportion of constant to variable capital is unchanged, the rate of surplus-value is unchanged. But it is the object of concentration of capitals to change that organic composition. But that larger capitals do not increase the profits of their participants over what they would have had separately has been proved statistically wrong even apart from theory.

Rodbertus held that only goods that contain labor are economic. All others are natural goods. By labor he means material labor that changes the shape or position of natural goods.

Rent persists because labor can produce a surplus above its needs and because of private property in land.

Owing to their hunger, the laborers give *all* they produce to the capitalist, who returns them a pittance. Rent increases with productivity, since labor receives only a maintenance and can never participate in any new surplus above that maintenance.

But rent, wonder of wonders, is also a salary for management, as well as plunder. Rodbertus holds, like Marx, that the quantity of labor is value, but he sees one kind of labor only. His idea that the capitalist appropriates surplus in the wage contract differs from Marx, who holds that the laborer is paid value in the contract, as such.

Wages can be increased only at the cost of "rents." Or wages can be increased out of production gains without reducing money "rents." Mind and nature do not enter into costs (then why wages of management?). Costs are three: raw materials, labor, depletion of tools.

The laborer produces his own food. Since value decreases with productivity (also similar to Marx), and land rent is antithetical to capital rent, the effect of increased productivity causes each of the two capitalist classes to seek to recover value from its own laborers. This is easy because labor is bought and sold for the cost price of foods, as expressed in labor and not in money, for that includes a "rent."

Rodbertus held that property could be abolished and yet income remain. Like Fourier, Saint-Simon, and Sismondi, he could not bear to see rich people deprived of all resources and so he smuggled in their claims. No wonder that, although theoretically Rodbertus is more radical than Marx, and with Lasalle held everyone but the workers to constitute a homogeneous reactionary mass, the two got together to help Bismarck! Lasalle paid the tribute to Rodbertus that he, and not Marx, was the German Ricardo. Actually we know that practically every idea of Rodbertus comes from Sismondi with a dash of Saint-Simon. A Junker disciple of Frenchmen is a rare bird; it was not suspected until much later.

Rodbertus's agrarian and bureaucratic socialism found high favor with the governing class. Since he held land to be alienated capitalistically, the cabbage Junkers, as Marx termed them, saw in him a savior. His theory that the three factors in production are paid for their *market* services, but are abstracted from the producer (a pale imitation of Marx's surplus-value and the modalities of its division), was hailed by Wagner and others as the key to political economy.

He also advocated a labor-currency to replace money and, of course, it would be based on labor-time. His social remedy was rent-limitation, so that the landlords (he was one) kept their income, but participated in no increment in the future. Land ownership also should be inalienable in the family. No wonder Hitler has adopted his notion of blood primacy by making the right of the eldest son to a farm, inalienable, and leaving the other children to figure it out!

Because of Rodbertus's inability to formulate a real theory of surplus-value (based on an understanding of twofold labor, and the sale of labor-power), Engels in his introduction to Volume II of *Capital* challenged the disciples of Rodbertus to explain how an equal rate of profit could come about, not in violation of the law of value but because of it. If Rodbertus was practically as good as Marx, this could be done easily. It was not taken up.

Rodbertus had no method of escaping from contradictions, such as Marx had with his subsequent divisions of surplus-value, etc. Hence he is touted generally as far more profound than Marx because he is so much more easily vanquished, and if you assimilate

a genius to a plodding fellow and say they are the same and refute the plodder, you appear then to have refuted the genius. This is the exact procedure of Böhm-Bawerk in *Capital and Interest,* but its prestidigitation imposes on no one any longer.

But Rodbertus was a close thinker, and in many fields, well worth close attention. His rank is due partly to his social position and as a forerunner of "state socialism." He saw the difference between natural and social forms of production, and he pointed out that political economy deals not with a real (a physical) world but one framed by private property. He saw that the "waiting" theory of production, such as that of Böhm-Bawerk, was contradicted by the simultaneous processes of production, so that the serial production-time idea of the Austrians was a false abstraction.

Unfortunately for theory, Rodbertus thought there was a "logical" conception of capital which was independent of a "historical" conception. But even when the greatest allowances are made, it is a fact that there is little in Rodbertus that is not more systematically and organically given in Marx; his reputation will continue to be based on the fact that independently he came nearer than anyone else to a large number of quasi-Marxian theories. Owing to his high social and political position, too, he was important because he compelled respectful attention to that type of criticism.

Chronology of Books and Significant Events Leading to Marxian Political Economy

1. Gerrard *Winstanley*	Pamphlets on the Digger Movement	1649
2. Sir William *Petty*	*Quantulumcunque concerning Money*	1672
3. *Boisguilbert* [19]	Economic writings (*circa*)	1690
4. Benjamin *Franklin*	*Modest Enquiry . . . into Paper Currency* (published 1779, written at *fifteen*)	1721
5. Bernard de *Mandeville*	*Fable of the Bees*	1724
6. Jacob *Vanderlint*	*Money Answers All Things*	1734
7. *Morelly,* l'abbé	*Code de la Nature*	1755

[19] Orthography varies; also spelled *Boisguillebert.*

8. François *Quesnay* .... *Tableau Économique* 1760
9. Sir James *Steuart* .... *Enquiry into . . . Political Economy* 1767
10. Mercier de la *Rivière* ..... *L'ordre naturel*, etc. 1775
11. Adam *Smith* .... *The Wealth of Nations* 1776

American Declaration of Independence: first revolution with completely integrated political theory 1776

1. W. *Ogilvie* .... Pamphlets on rent (*circa*) 1780
2. William *Godwin* .... *Political Justice* 1793
3. *Saint-Just* .... Speeches on the French Revolution 1793-1794
4. N. F. *Babeuf* .... *Doctrine des Égaux* 1796

Classical Sources

1. David *Ricardo* .... *Principles of Political Economy*, etc. 1817
2. Simonde de *Sismondi* .... *New Principles, etc.*... 1819 and 1830
3. Destutt *de Tracy* .... *Concours des Forces* 1823
4. Charles *Babbage* .... *Economy of Manufactures* 1834

English Socialist Sources (Utopian and Ricardian)

1. Thomas *Spence* .... *Restoration of Society to . . . Natural State* 1801
2. Charles *Hall* .... *Defects of Civilization* 1805
3. Lord *Byron* .... Speech on the Luddite Riots... 1811
4. Percy Bysshe *Shelley* ...... Notes on *Queen Mab* (economic) 1812
5. Robert *Owen* .... *A New View of Society* 1813
6. William *Thompson* ...... *Enquiry into the Distribution of Wealth* 1824
7. T. *Hodgskin* .... *Labour Defended, etc.* 1825
8. John *Gray* .... *The Social System* 1831
9. Thomas *Bray* .... *Labour's Wrongs and Labour's Remedies* 1839
10. Bronterre *O'Brien* .... Socialist articles in *Northern Star* (*circa*) 1843

Formation of the Trade Unions legally............... 1825

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1. Charles *Fourier* .... *Théorie des Quatre Mouvements* 1808
2. *Saint-Simon* .... *Le Nouveau Monde Industriel*. 1821

First proletarian uprising in history in Lyons, first workers slogan: "Live as workers and die fighting"............ 1832

3. Victor *Considérant* .... *Destinée Sociale* 1836
4. *Pecqueur* .... *Des Interêts du Commerce, etc.* 1838
5. Louis *Blanc* .... *L'Organisation du Travail*.... 1839
6. Pierre J. *Proudhon* .... *Qu'est que la Proprieté?* 1840

German Historical Juridical and Philosophical Sources

1. G. W. F. *Hegel* .... *Knowledge of Logic* 1812
2. *Philosophy of Law* 1821
3. L. A. *Feuerbach* .... *Das Wesen des Christentums* 1841
4. *Böckh* .... *Political Economy of the Athenians* 1818
5. F. V. *Savigny* .... *System des Heutigen Römischen Rechts* 1815-1831

Rising of the Silesian Weavers. First German workers' mass action 1844

41

Dialectical Materialism and Historical Materialism

We now reach the most fundamental Marxian theories. We shall consider not their full range but their application only to economic theories. These two absolutely basic concepts are *historical materialism* for the story of man and *dialectical materialism* for a comprehensive method of studying man's universe.

It has been urged by many critics of Marxism (usually by sympathetic ones) that there is no need of this philosophical approach to understand Marx's economic theories. It is argued that his examination of labor and wages and value and his description of the capitalist mode of production and exchange and the observed tendencies of the system would be equally valid without a basic orientation.

English socialists, the heirs of inductive philosophy, steeped in the spirit of David Hume, French socialists, natural rationalists and wits and sons of Diderot and Auguste Comte, and practical Yankees, to whom all theories are not worth a single practical invention of Edison,[1] all regard this apparatus with suspicion, and many ask for its discard.

An interesting example is that of the essayist, Max Eastman, who views Marx as dealing with the notion of *cause* whereas the engineering approach is to study a given *conditioning*. He thinks that Marxism suffers because it carries so much philosophical baggage that it cannot win the race against capitalists. He attributes this mistake of Marx to the backward state of German thought compared to progressive, scientific Anglo-Saxon thinking. (Eastman is an Anglo-Saxon.)

Marx and Engels, although German by birth, spent their work-

[1] Or a homely "Affurism" of Josh Billings.

ing lives in England and the critique of just that attitude of Eastman is repeated by them in detailed studies of Hume, Bentham, and others of that school.

In Chapter I we have seen that Marx and Engels hold that the appearance of reality is often the reverse of scientific truth. The sun appears to rise in the east, the world seems flat (certainly to hill-dwellers), bodies seem to fall at rates proportional to their weight, etc.

They were compelled to examine economic phenomena to see if things were what they seemed. Did the worker receive the full value of his labor when he was paid? And, if he did, what accounts for profit? Does the capitalist really employ the laborer? He seems to. Is he the real leader and inspirer of production because he risks his investment? He seems to be.

In order to penetrate these appearances, they found that ordinary inductive thinking was not helpful. The contradictions were wrapped up in relations that were not apparent on the surface. Hence they required a technique that would enable them to disentangle the elements and present their real working. They found, so they believed, that this real world bore no resemblance, fundamentally, to the superficial world, so laboriously depicted and analyzed by economists.

As the method they employed to discover these contradictions was that of dialectical materialism, they naturally assigned to it special importance. The real question goes much deeper but this suffices to show that for them the dialectic method was the method of economic science.

What the Student Already Knows

Before proceeding to an elementary exposition of historical materialism and dialectical materialism, let us sum up the cognate information already contained in the previous pages. It includes:

> That Marxism is a historical science of economic phenomena; that it formulates laws applicable to concrete situations only; that it takes changes in the mode of production to be fundamental; that these changes in the mode of production

are reflected in different class relations; that this division into classes leads to struggles; that the political and social institutions of man are functions of that class organization, varying ultimately with changes in the mode of production; that political economy is not static but treats of the law of motion of the capitalist system; that the very categories it uses, such as wages, apply only to a wages-system and are not eternal; that capitalism itself is a concept of a living, changing society embodying whole aspects of former systems and showing features that indicate its supersession; that economic reality is not ascertained by observing economic appearances; that without an approach over and above political economy it cannot be apprehended; that the capitalist system produces socially but appropriates privately; that science, especially in political economy, is the thought-picture of class interests but that there is objective political economy, but its apprehension is a testimony to the maturity of class development which enables thinkers to arise and identify its aspects.

Political economy is an illustration of historical materialism which is merely the human aspect of dialectical materialism. This latter philosophy gives the modes of discovery of political economy and also is the touchstone of the legitimacy of its conclusions. The history of institutions is explained by variable factors, the principal one of which is the aforementioned changes in production. Other factors vary slightly or not at all. They are relatively constant factors, such as geography and race. Every specific event, such as wars, etc., may have a different significance at different times, hence formal resemblances are not enough to lead to similar conclusions; it is the class content at any given time that is decisive. A change in the quantity of any social form changes its quality. For example the production of x cotton is compatible with a manufacturing system, but x^6 only with a capitalist system. Every institution changes into its opposite when it is in a different setting; for example, the gentile society becomes aristocratic when there is a larger quantity of goods. Political economy deals with objective and quantitative relations and deals with the totality of values, exchanges, etc., instead of with individual, subjective transactions. Historical materialism asserts that institutions are determined by economic

factors, but this has no resemblance to economic determinism, which assumes that the everyday actions and psychic expressions of men are the *direct* functions of economic motives. The uneven development of capitalism and socialism is an instance of the distinction. Gathered haphazard in the preceding pages, these will reappear in an ordered form in the following exposition (as far as possible leading to economic theory).

Dialectical Materialism

Dialectical materialism is a theory of evolution.

(1) That nature is primary; that man perceives an external world whose real motion is reflected in his perceptions and reasoning.

(2) That in so far as science progresses it uses a materialist basis.

(3) That the freedom of man consists in his understanding of necessity. So long as he does not comprehend necessity he thinks himself helpless. Human freedom is impossible, though, except within natural necessity, for it can never run counter to it by an act of will or thought.

(4) Objective law in nature, that is, necessity, is made available to human freedom by science, and to do this it uses the logical method known as *dialectics*.

(5) Dialectical materialism is not mechanical, it is not "gross or material in the common use of the word." It assumes that the world is not to be viewed as a complex set of fully fashioned *objects* but as a complex of *processes* in which apparently stable objects arise and disappear as do the images of them within the human brain.

(6) This process of change means that everything must decline, to make way for new things, that nothing in nature or society is fixed or "sacred," since it must share the process of transformation.

(7) That the theory of evolution is correct, but not in the old-fashioned sense of a constant progression from simple to complex, nor is it a direct path of "progress."

(8) That the idea of evolution must be applied all-sidedly so as to include apparent departures from straight development. That unless this is done, thought is *metaphysical,* that is, a philosophy outside of science, and, therefore, useless in the real world.

(9) That human nature—the nature of that animal which observes the world—is a synthesis of animal endowment and definite, concrete, historically evolved and everlastingly changing social relationships. Hence man's freedom consists not merely in interpreting the world but in actively changing it. This is the imperative of *revolution.*

(10) Dialectical materialism uses only one tool apart from external science itself, the science of thinking. Its laws are termed formal logic and the notion of dialectics.

(11) Dialectics is the general science of motion of both the external world and of human thought and behavior.

(12) Dialecties means specifically that the stages of each development repeat former stages but on a different plane. That is, each step is the *negation* of the previous step, and the next step must be a negation of that negation; it does not restore the original situation, but invariably creates a third situation, which is different because of the double process of negation.

(13) Hence development is, picturesquely, expressed by spirals and not by straight lines. (This is merely an illustration.)

(14) Development includes leaps and bounds, instead of motion at the same rate, and takes account of catastrophes and revolutions (what philosophers call "accidents," that is, events not within a given system but entering it, apparently from outside), but there are long intervals when motion is gradual.

(15) A change in quantity produces, in and of itself, a change in quality, and conversely, changes in quality produce changes in quantity.

(16) The conflict of outside forces and inner tendencies bring out inner forces of development that become concrete only when this contradiction forces them to move; this is especially true of society.

(17) All events, all sides of every event, are interrelated and this accounts for our discovering ever new aspects of things. Inter-

penetrations of motion reveal undisclosed connections. This means that there is a general law of motion for the totality of the real world about us.

Now all this looks very fearful and ponderous and for that reason a great many people, impressed by the purely historical position of Marxism, regard this set of doctrines as superfluous. Let us relate it to political economy, proposition for proposition, and we shall see why Marx esteemed it so highly.

Economic Illustrations of Dialectical Materialism

(1) The capitalist system exists outside of us; we perceive what is already there.

(2) Political economy cannot progress unless it uses this real capitalist system as a basis instead of ideal constructions.

(3) That by apprehending his part in the process of production and the present superfluity of the capitalist, the worker can translate the real contradiction between social production and private property by an act of the social will, that is, by a revolution. But his will is subject to necessity. If these contradictions are not objectively enough developed to threaten the system, his will cannot overturn it.

(4) Necessity is transformed into freedom by the worker only through science, that is, by a theory based on an ordered perception of the capitalist system. Without socialist theory, no socialist action.

(5) The capitalist system is not a permanent, static object, the same in all times and places. It is a complex of processes. These differences are mirrored in the perceptions of its critics.

(6) Capitalism arose out of feudalism and it must decline in favor of socialism. Socialism must give way, ultimately, to communism, which in turn makes away with the State, the representative of class divisions.

(7) Capitalism does not develop straight from simple capital to complex. It deflects the middle classes from a propertied group into higher-paid workers. It transfers real property into share certificates or shadows of property. It seeks to deflect free labor by Fascism so as to fall foul of its destiny. The worker must understand these temporary adaptations.

(8) Hence the worker cannot rest content with the "inevitable" end of capitalism (that will put him in a world outside of reality), that is, a concept that cannot be reflected in action. In a real world, labor and capital must often, therefore, fight out partial issues such as hours of labor, rates of pay, union recognition.

(9) The working class, indicated as a future governing class, must prepare, in the *daily* struggle, for a situation which will call for a transformation of this struggle into a revolution, that is, a transfer of class power based on the control of the means of production.

(10) The workers must apprehend the method of dialectics, for without it they can see no movement in their struggle with the capitalists, only an aimless series of guerrilla battles.

(11) Comprehended in 10.

(12) Capitalism negated feudal relations, socialism negates capitalism; the consequence is not a return to feudalism but to a further stage, free communism.

(13) Illustration of the above.

(14) A new process of production, like the automobile, by creating garages, rubber plantations, petroleum developments, etc., took rubber, oil, and trained mechanics outside their steady line of development. It was a leap. On the other hand, the carriage trade went on for generations at a slow pace with few changes in its forms (slow development of hansom cabs, etc.). Fascism, although a development of capitalism, acts as a catastrophe for workers. They must, accordingly, vary and speed their tactics to counter it. They must, for example, protect the civil liberties of the middle class, even though these were not quite so primary when development took a straight line.

(15) The steam engine changed the quantity of things produced. It thus changed the manufacturing system into the machine system of high capitalism. The alizarin chemical process allowed red dyes to be made synthetically. It annihilated, by its qualitative movement, the immense fields devoted to madder in many countries.

(16) The development of capitalism produced a class of calculators that were not met with in the Middle Ages because they were not required in that poor economy. Great reserves of curi-

osity were brought into play by the development of physical science. Uninventive sergeants and corporals, crushed by the class discipline of the French army when commanded by nobles, produce dozens of superb military talents as a result of class displacements, e.g., the French Revolution.

(17) The discovery of America resulted in supplies of the precious metals that ruined the social structure of Europe by increasing prices at an inconceivable speed.

These are not the best illustrations, but this section is only a epilogue to the study of political economy. The dialectic method has been used throughout the text.

Historical Materialism

The student is advised to disregard the repetition of ideas formerly encountered and to take up this section afresh.

Historical materialism is based on the following assumptions (Marx's own words are largely employed):

(1) In the social production of the means of life, or the means of further production of the means of life, we enter into definite and necessary relations independent of our will.

(2) These production relations correspond to the stage of development in the arts of production, or in the utilization of forces of production.

(3) The totality of these relations in production constitute the economic structure of society.

(4) This economic structure is the real basis for

(*a*) The legal superstructure (codes), (property relations in law).

(*b*) The political superstructure (monarchy, republic).

(*c*) Social consciousness (expression of ideas).

These superstructures are *generally* determined (but not in every detail).

(5) Consciousness is not the author of social forms but the social forms determine consciousness.

(6) At a certain stage of development, changes in the material productive forces come into conflict with the property relationships hitherto established.

(7) These property relationships, which were once useful for production then become the opposite; they are drags on development.

(8) With any social revolution—that is, a change in the classes that control the means of production, and, therefore, change property relationship—the gigantic superstructures are more or less rapidly rebuilt.

(9) There are two concurrent developments:

(*a*) Changes in the economic conditions of production;

(*b*) Legal, political, aesthetic, philosophical ideas in which the consciousness of material changes is embodied and which are the weapons with whicb the issues are fougbt.

The first change is more clearly recognized than the second, because it is *quantitative*.

(10) No epoch can be judged by its consciousness of itself. That consciousness is itself the outcome of the conflict between material forces of production and class relationships based on property.

(11) The totality of social phenomena must precede the study of its individual or partial movements within.

(12) The activity of the *masses* is paramount.

What does the historical materialist imply by these assertions? First, that the history of men does not originate in their *ideas*. The idea of liberty is not the cause of wars of liberation. The idea of chivalrous love is not a new psychic outburst, without rhyme or reason, but a definite outcome of sex relations, these in turn being dependent on class relationships that gave women an auxiliary and decorative position.

Religion does not begin with man's search for the infinite but with property taboos, with the division of society, consecrated by sacred and profane groupings.[2] Idealist philosophies show the rise of the bourgeois mode of production, which seems to originate in the directive individual. Hence his idea that the universe is his image. He shapes the cosmos as he shapes his profits. Science does not arise because men become more fair-minded and curious but

[2] This does not touch on its validity, emotional depth, or beauty.

because the need for measuring the Nile and the Euphrates led to a crude trigonometry if the crops were to be arranged for at all.

This conception of Marx is pregnant with the greatest consequences for political economy. For it treats economic activity as objective. It joins issue with those who concentrate on individual differences as primary. It declares that for production relationships and for that superstructure that determines distribution, the will of individuals is nonexistent.

Even if Thackeray is right in saying that we do not know what goes on under every hat that passes, this observation is of no consequence. For the consciousness that alters matters is social.

It imposes a negative limit. Nothing that goes against the prevailing mode of production, until that mode comes into contradiction with property relations by its development, can possibly succeed. No class that holds power has a complete range of action, for it can never do anything that contradicts its control as a class.

So while there is no limit to individual generosity, as was evidenced by Robert Owen, no class can be generous to a point that alters its property relations with another class.[8] The limits of liberalism are rigidly fixed. The concept of social collaboration cannot be indefinitely extended.

The difference between historical materialism and other conceptions of history is easily described. There are the geographical explanations dear to Ratzel and Brunhes and, to some extent, to Gibbon and Buckle. There are the spiritual explanations, held by the Bible, Bishop Bossuet, and Hegel. There is the ideological explanation, that is, that ethical ideas determine everything, held by liberals like Lecky. There is the triple theory of Taine that race, environment, and the felicity of the moment are the vehicles of change. There is the race theory of Gobineau. The evolutionary hypothesis is held by Spencer, who views man's history as an extension of the development from protozoa to the gorilla. There is the force theory of Dühring, that the passion for power of one over the other motivates history. The diverse theories include those as romantic as Carlyle's, that great men are everything and the

[8] See Tolstoy's often cited epigram, "The rich will do anything for the poor except get off their backs."

masses nothing, the apocalyptic of Spengler, with a theory of psychic, pattern, and economic correspondences, and, above all the skeptical viewpoint, that there is no theory of history, that it is a series of occurrences that had best be studied each for itself.

These enumerations do not begin to cover the theories of history. Up to 1870 they are masterfully summarized in Flint's *Introduction to the Philosophy of History*. Those who can read German can follow with profit Rocholl's *Philosophie der Geschichte*.[4]

There are those who turn their backs on any history, like Böhm-Bawerk, the fiercest and most powerful opponent of Marx, and declare that it has no significance for political economy.

But for Marx, economic activity is *political* economy. What then is politics?

Politics in Essence

Politics appears to be an opposition of principles. To take an interesting example, Alexander H. Stephens, vice-president of the Confederacy, wrote a view of the Civil War (a post-mortem). In a set of Socratic questions, which he answers to his satisfaction, that war is treated as a constitutional question, primarily turning about states rights (the strict construction of the Constitution) and the *logically* derived right of secession.

Stephens thought that the war turned about these concepts. Slavery was for him the fulcrum, but not the lever, of the war.

Constitutional theory, then, was the cause of the multiple deaths of Gettysburg, and the Blue and Gray slept under laurel and willow to serve a differing set of constitutional interpretations. Rarely has a lawyer's mania gone further.

But basically Stephens's treatment is not exceptional. Politics in America are supposed to turn about different *ideas* of the scope of state intervention in industry, etc.

When the Continental Congress inveighed against the offenses of George the Third, they unrolled the set of everlasting principles be had transgressed. Their specific grievances were relegated to a later enumeration.

[4] Berr's *Le Synthèse en Histoire* and Bernheim's *Lehrbuch d. Hist. Methode* can be recommended for critical work.

So in France, the Radicals state that they believe in equality, fraternity, liberty, whereas the Republican-Democratic Union declare that they value authority above justice, order above any idea of social welfare. These are supposed to be the reasons for which they divide.

According to Marx, this is all veneer. The reason parties exist is as expressions of the economic interest of a class or a subsection of a class.

For example, when a party says it prefers order to justice it means that it does not want property, as now held, to be disturbed. The proof is that the moment revolutionary committees are triumphant and establish a most rigorous order, these same conservatives go in for counter-revolution, so as to restore their property.

When a party says it favors progress, it usually represents the interests of those who are not efficient in obtaining *economic* control and so seek *legal* modifications that will give them some of the spoil.

All divisions of politics, then, represent the economic interests of classes. This explains their apparent confusion. When the liberals, representing manufacturers, imposed free trade on England, the landlords, who feared that policy, endorsed the factory acts and gave household suffrage to the workers. In that way they brought workers' pressure to bear on the manufacturers. When the Tory Party of the landlords obstructed the merchants' policy, the Liberals, in vengeance, gave the vote to the agricultural laborers. Hence, in the conflict between sections of the capitalists, the workers have gained some rights, but even these were dependent on their own activities, in the long run.

The Northern capitalists called for a harsh policy toward the defeated Southern plantation owners and pretended a great solicitude for Negro rights under President Grant. But so soon as the factory system, almost entirely in the hands of Northern capital, was successfully established on the ruins of the Southern interests, the North favored "reconciliation" and understanding, and forgot the Negro's rights to the extent that they allowed two amendments to the Constitution to be effectively nullified. They acquiesced in a political resistance they had once fought. It paid them to, for they had the South as an area of "colonial" investment.

If, then, *politics* is the conflict of economic groups disguised under the sauce of ideas, it follows that economies is not wholly divorced from history. For if it were, why would the state interest these various groups? Underneath the most benign appearance of state indifference, as in the epoch of individualism, called *laissez-faire,* the state control was always worth a party contest, or, if not a party contest, then a brutal abolition of parties by a dictatorship which is *disguised party rule*.

It may be argued that although polities is economic, it does not follow that economies is political. Economic interests may clasb in the state, but the study of their formation still resides outside of political reference, that is, studies a prior mode of action. In other words, the subjective and abstract school argues that subjective valuation is the foundation of values, and these express the wortb of goods. To obtain these goods is the object of party warfare. But the valuation is not political, it is antecedent to polities.

Economics Is Political

The Marxian answer begins at the foundations. Value is objective and is determined in the mode of production. Since the mode of production is interwoven with the political texture, it must be considered in this many-sided manner instead of being artificially abstracted. We know the motion of a mode of production by its behavior in interaction with other factors. Nothing is knowable in and of itself. The ultimate test of the method of historical materialism is in life. If the analysis of Marx makes good in actual working-out, the subjective non-historical method is beaten.

Although Marxian theory utilizes pragmatism (that is, that truth is ascertained by finding out what works), it employs it only as a method of confirmation, for it holds that nothing can replace science, the organization of ascertained and grouped data.

It is not a question for the Marxian, then, which economic activities are precedent to politics, but which economic setting is precedent to those activities (that is, what relation of classes conditions economic valuation, distribution, etc.). For the Marxian there will be no political economy under Socialism because then

there will be no classes. There will be engineering, physical, or chemical distribution, or economic geography, but not *political economy*. That is a science that will die with capitalism.

For Böhm-Bawerk, this is untrue. The profit of capital is a category antecedent to class. It may be socialized but remains as the reward of past accumulated goods used in production or, rather, as its *imputation*, that is, a compensation for the part it plays in production. Rent for differential fertilities may be socialized, but it remains a factor in accounting for different production on different soils. In other words, distribution is natural and does not arise out of historic modes of production.

These differences between Marx and the deductive school show the vital importance of the apparently unrelated question of historical materialism to the very foundations of political economy. For Marx these economists confuse human or natural differences with *economic* phenomena. Economic phenomena are always social products.

Historical Materialism Is Not Economic Determinism

Although we lack space to go into the questions of historical materialism outside of direct economic inference, we must amplify its difference from economic determinism. About 1870, the diligent and gifted Thorold Rogers, an Oxford man, elaborated the economic interpretation of history. He held that all history is a direct product of immediate economic interests and, almost completely, that men's everyday activities are crudely motivated thereby.

Ordinary bourgeois cynicism rarely departs from this point of view. Why? Because, the Marxians hold, for it money is set up as the god of society and the bourgeois mind can imagine no other motive for behavior. "Every man follows his pocketbook," "It all gets down to dollars and cents," "You can sell your fine sentiments for £/s/d," "No one shoots Santa Claus before Christmas," are typical expressions of this barroom wisdom.

This has no relation to Marxian theory. Marxian theory holds that history and, above all, its rich ideological and emotional superstructure, is varied, contradictory, and full of other factors than the direct economic.

The Human Philosophy of Marx

That men differ from women, children from parents, fishermen from mountaineers, people in hot countries from those in cold, Christians from hard-boiled sinners, dreamers from hard-cash men, the weak from the strong, the poet from the historian, that some men are more agile than others, that individual men court martyrdom, loss, and suffering, that old uncles work their eyes out for nephews they think are great painters (though doomed to poverty), that mothers worship the one son who is a ne'er-do-well, and defend him against their respectable children—there is no need to enumerate these and a thousand others. Who denies them, denies humanity.

For this reason, Marx in his *Gotha Program* Notes denies the formal equality of men and points out that this slogan has a meaning only when it calls for the abolition of classes, since the rich variety of personality and interests is the aim of socialism, that is, the infinite multiplication of inequalities in *men* under the form of the abolition of *classes*. This gives the clue to his system. Just as he ridicules the idea that labor creates all wealth, so he never forgets a historical "factor." Economic causes—that is, the mode of production—set up classes. These classes are consecrated by codes. These classes are the origin and purpose of politics. The struggle of these classes internally is the history of a nation; outside, it is the record of its wars, treaties, and commerce. These classes honestly see the world, and even the heavens, in the image of their class interest. Nothing in political economy or history, or even in the major outlines of expression, is comprehensible without it. It is a unified concept that binds the contradictory factors that make history, not one that ignores them.

This influence of classes, then, is the mode in which history is realized.

Marx Stresses Environment

But it is true that Marxism does stress environmental factors. These are requisite to its understanding of history as a web of social relations. It cannot ignore the differences between Polish Jews

at home, averaging five feet three, and their American grandsons five feet nine and weighing half as mucb again, if not twice as much. The difference in food bas changed the "race" from scholastie retreat to athletics.

The philosophic and easy-going German became a different man as conqueror and capitalist. At times one race and then another has been on top. Hamites, Semites, Dorians, Teutons, Mongols have eacb had their little day and been convinced that the others were inherently stupid.

Religions that swayed hundreds of millions—those of Osiris, Jupiter, Bel—have not a single follower left. The Spaniards lost the world. The Scotch, poorest of Europeans, turned *en masse* from Hell-Fire to Accountancy. For these *group* differences, economic explanations alone can account for the variation in behavior and fortune.

Social Changes Are Never Serial

The evolution of capitalism itself was as irregular as Marx holds the transition into socialism will be. England, for example, was the first country to realize complete capitalism. Yet England retained a monarchy, an aristocracy, an oligarchy in government, a hereditary upper chamber, an established church.

The worship of titles is almost sickening. Mr. Plutocrat is not happy until ennobled; Mr. Climber wants not merely money but the marriage of his daughter to a graduate of Eton and the possessor of a mortgaged deer park.

In France capitalism was established later. Yet it was formulated in the Code Napoléon with a legal purity that England lacks. King, nobles, Church are swept away. Yet it retains a colonial empire in which it refuses full civic rights in impudent denial of its ideal of equality. And, though legally the most capitalist land, it has the largest proportion of an independent or quasi-independent peasantry. In England, the peasantry is almost liquidated, but not in France. The Commune of Paris, the most revolutionary act of labor, was ended in blood by the suspicious peasantry acting as allies of the rich bourgeoisie of Paris.

Compare Germany and the United States. These were the two

capitalisms whose industrial development from 1870 on were the greatest. In Germany this arose within the framework of the state and the army, and throughout, its economic realization was limited by the needs of these two powerful institutions. Yet without the Prussian state and army, that capitalism could not have developed so greatly nor even have been sustained. Hence the dead weight of those two institutions was a necessary cost.

In the United States capitalism was based on the isolated farm on free land, on free immigration, on immense borrowing, but at the same time, although a democratic republic, with far less control over public utilities or railways or financial institutions than in any European state.

Imperialism, too, is not resorted to in America as much as in Europe, even when a fixed surplus of capital at home brings interest rates to near zero. There is a social carryover here that is unique.

Material Social Causes Act Only through Psychic Media

Nor can institutions like the state or the church be disregarded even in an economic theory. That the Catholic Church in Spain has been an active economic agent is well known. It is easy to say that this influence is due to its immense landed and financial possessions. But why an ancient institution like the Church should be allowed to hold so much property only in Spain, when the wolves of finance and industry in that country are hungry, cannot be explained by economics alone.

Nor can the worship of the flag. All Americans, irrespective of political affiliation, except for a few dissenters such as Seventh Day Adventists, are devoted to their government.

This national binder is an economic reality. It can be invoked by spurious patriots to force a protectionist policy. It can be used as chauvinist excitation against imperialist rivals. It can be used to emancipate slaves and for this purpose billions in treasure and hundreds of thousands of young men's lives are offered.

It is easy to say that this use of the country in the Civil War served the interest of industrial capitalism in the North by letting down feudal territorial barriers in the slaveholding South.

But this is an explanation only as to *results*. It does not explain

the totality of this phenomenon. Men do not offer their lives to spread the interests of industrial capitalism.

And if the subjective picture is not given, neither is the objective. The nation itself was *sine qua non* for the development of industrial capitalism. Every property relation is bound up in a judicial wrapper. The nation itself must originally have served the material requirements of the colonists, and it must still not conflict too seriously with basic production relations.

As we have seen, Marxian theory rejects what is commonly called "economic determinism." For it, economics is a part of society, society a part of biology, biology of chemistry and physics, and all these a branch of astronomy, to be most comprehensive.

The larger aspects of economic theory must include, then, the nature of all economic relations, the causes of their change, their principal ingredient (for Marx in the class structure and consequent conflicts), etc.

Historical Materialism Stresses Variables

The Marxian theory seeks the variables in economics, since the constants give us no clue to history. They give us only the bases of all history. The soul of man, geography, injustice, etc., all these concepts are equally valid for the most diverse societies. *The effective cause of change, for Marx, is a changed mode of the production of goods.* Where (as in the instances of France and England above cited) a change in the mode of production does not account for certain differences in economic or socio-economic history, we must make a more profound study of production relations rather than assume the variations to be due to special national characteristics or to the spirit of the times or other such vaporous explanations.

The British retained their landed aristocracy and the French lost theirs, for one reason among many that the English nobility paid taxes and the French did not.

The British nobility, owing to the curious fact that it was not a nobility, that is, not a fixed order of society but one to which admission by marriage was easy and descent into the rank of commoners by younger sons equally easy, was in this way easily united

with the rising bourgeoisie, whereas the French nobility would have been degraded thereby.

And the reason why England had no true *noblesse* or order of nobility was that the fighting of foreign wars ended in 1453, so far as large land warfare was concerned, whereas in France it subsisted 330 years later.

Another reason was that the English nobility was a caste of French conquerors and that it was subject to a special royal fealty, due to its having originated as members of the marauding gang of William the Conqueror, whereas the French feudal nobility was antecedent to the king and resisted his legal claims. Land in England was held by the nobility on a military tenure basis so as to extract tribute from the Saxons.

Even the foregoing explanations of the differing economic functions of the two nobilities are far from adequate, but they do indicate that there are remote economic reasons back of social discrepancies where there appears superficially to have been the same development in two countries and yet where it is clear that the consequences were not similar.

Marxism Ignores Formal Resemblance

What applies to two countries applies with equal force to two different situations. For example, according to Marx, two wars between two states may be wholly different in class significance. The war of Prussia against France in 1870, however vicious the tactics of Bismarck, was necessary so as to realize Germany's economic unity which it was the interest of Imperial France to throttle. But so soon as France was proclaimed a republic, within less than two months after the war began, the war became inadmissible for Germany because it reduced working-class possibilities in France, enthroned naked reaction in Germany, and now acted as the reverse of a war of liberation.

Marx and Engels never weary in their analyses of insisting on the specific *class content* of any given situation. This eliminates vulgar fortunetelling. It no longer follows that when all the apparent circumstances are the same, the consequences are equally predictable. Very often, the mere passage of time makes one anal-

ysis sound and the next one false. The total setting reverses the significance of similar events. Thus Marxian theories can never be learned as a breviary, but, to change metaphors, serve only as a lamp to our feet.[5]

We have not learned to understand categories like "capitalism" because any such summarized word merely tells us that we are observing a host of fermentations. For all that, these categories are extremely important guides to understanding, if they are used by men and not by Dry-as-Dusts. For if economic relations in production, expressed in classes, is the basis of history, the categories refer back to real men who constitute these classes. And as these class relations are themselves determined by economic changes, we need a synthesis that will go beyond history and economics both. That synthesis is historical materialism.

The following variations on a theme may be noted: [6]

> (1) While the specified form of philosophy, art, and literature is not conditioned immediately by material conditions, Marxians generally hold that the conditions of the mind, habits, traditions, customs, and the type of abilities called forth by material changes are important, and are often the significant factors. Since these mental habits, etc., are themselves ultimately reflections of material conditions, the contingent influence of modes of production ought to be appraised. In technical matters this is obvious; the type of reeds determined certain organ styles, the invention of the pianoforte gave rise to a style based on greater shading. A Chopin could not have achieved his effects on the harpsichord. The influence of modern noises on strident composition is a case in point. The amusement of kings produces the courtly style, and cynical drama represents a class that feels its influence shaking. A new, vigorous class produces vital dramas or literature as a part of its exuberance; witness the golden ages of literature and art that usually coincide with economic impetus. A Shakespeare is more *likely* to be produced in a vital atmosphere than in a courtly, formal setting.

[5] On the Mexican War question, Marx and Engels would have applauded Thoreau and Lowell; in the Civil War they would have drafted them.

[6] Not required for economic theory.

At the same time no materialist explanation need be invoked for the difference between a Shakespeare and a Chapman.

(2) The presence of differing ideas at any given time, despite the domination of certain material conditions, is explained by the varying class interests within that framework. The hope of rising groups, the obstinacy of dying groups, the robust cruelty of dominant classes, and the eclecticism of declassed individuals may produce a medley. But for all that, each epoch has a different set of medleys from every other, for different class expressions are required.

(3) But one class viewpoint must overshadow all others, so as to give the dominant class scope for its vital part in society. Its belief in itself is essential for its well-being. In America, for example, the philosophy of the large magazines with circulations of a million and over, is conservative. The cinema, the most diffused of the arts, is the most full of platitudes, as a whole. Its by-plays are rare and inconsequential. The greatest amount of dissent is found in small theater companies, amateur dance groups, little precious magazines, in the book publishing trade where some artisanship remains —that is, in the nooks and corners of social expression. Mass goods for mass tastes must of necessity be conservative, otherwise the social order is impeached.

(4) Even where masses of men go against their individual interest it does not follow that they are exempt from historical materialism in a direct sense. Soldiers are engaged in an occupation in which they must lose either health, money, or life. But the material need of the governing classes that sends them to their destruction is rooted in economic struggle. Rupert Brooke found dream and surcease in war but he fought for the Bank of England. An exalted young Nazi who strikes a helpless old Jew thinks he wields the sword of Baldur the Beautiful against Oriental cunning and treachery. His ruffianly purity does not in the least militate against his being the unconscious agent of a camarilla in the government who thus seize Jewish-owned goods.

(5) The materialist interpretation of history distinguishes between material *conditions* and material *interests*. Thus, the early Christian martyrs were anxious to forget the burdens of this earth. They were impelled to this ascetic attitude by

the material conditions of the decline of the Roman Empire. But their material interests were not served thereby, quite the contrary.

(6) If circumstances determine men, men change circumstances. The historical materialist by employing the conception that freedom is the recognition of necessity, rejects the mechanical materialism of the eighteenth century that considered man a machine, a mere product of circumstances. The conclusion of the historical materialists is optimistic.

(7) The collective will is the result of a multitude of individual wills. But since millions of individual wills have to be realized in the conflict with each other, the ultimate result is different from what each intended. To put it grossly, there are ten public issues. On *A* 56 per cent of the people are favorable, 44 per cent against. On *B*, 53 per cent for, 47 per cent against. But only 38 per cent voted for two laws. By the time ten laws are enacted, only 6 per cent of the people, say, voted for all, and only 21 per cent, say, for any six. The total will is unlike the sum of the individual wills. This crude analogy does not begin to picture the comprehensive thwarting of molecular wills by their mass collision. But the totality of wills must more nearly express adaptation to the then material setting of the community, or, rather, of that kind of need imposed by its class relationship. Each individual for himself is a universe; "my mind to me a kingdom is." But his actions are social because he is always in the other fellow's kingdom.

(8) Indignation arises when the material breakdown of a society's class relation makes its further tolerance an absurdity. This is not useless indignation against what cannot be remedied, for that is just sentimental folly. When a class is rising, has a purpose, it does the best job that the then known modes of production afford, however deep its crimes. Indignation against it has no social function, however much it may move the heart. Social idealism is a property of any rising class, it is a means to action. It casts off fetters on the mode of production so as to release more life. Hence it can use great men, who, in one of the most felicitous phrases of Carlyle, are "beginners." Their special personality has a real value, if it is shown at a right juncture. It cannot be over-

rated nor can it override social limits. But the hero is real. The worship by socialists of Marx and Engels and by communists of Lenin shows it to be a living idea.

These variations, not strictly germane to economic theory, nevertheless indicate the wide issues raised by historical materialism. In passing into political economy proper, the student, in the maze of its deductions, should hold tightly to the stout thread of Marxian Dialectical Materialism and its lesser strand, Historical Materialism, if he is to find his way back to the entrance of the sinuous caverns of Marxian economic theory.

NOTE: The following questions (among countless others) have been put by critics of the historical materialist hypothesis:

(*a*) If changes in the forces of production account for all change, what changes them? (Sidney Hook)

(*b*) If religion, say, as an independent factor, reacts on economics, how can you speak of its motion as derived from modes of production? Reaction presumes an action, and that originates. (Tröltsch and Max Weber)

(*c*) Marxism cannot analyze economic concepts without the legal system in which they take place. Then that is *given* as a concept to be utilized in economic relationships. (Stammler)

(*d*) What are productive forces that determine production relations? How are forces separated from relationships in action? (Jaszi)

(*d*) What is a *stage* of development? (The answer to this is attempted in Chap. IV of Bukharin's *Historical Materialism*, but is much too hieratic.)

(*e*) If capitalism was established by violence, that is, primitive accumulation, where is economic superiority? (Jaszi)

The last question is simply inexact: Marx holds, with Engels, that force explains history only within a setting for which that particular use of force is significant. All societies are distinguished by force; it is their economic differences that enable us to distinguish the effect of force. The other questions are suggested to the student so that be may explore the literature; the ability to answer them indicates the stage of assimilation.

NOTE: *The Role of Antagonisms and Fetiches*

No picture of historical materialism is complete without the *tableau* of antagonisms and fetiches in society. These have been frequently referred to in the text, but they need to be programmized, so as to be remembered compactly.

Since Marx, socialist writers have never wearied of pointing out that owing to the necessity of a divided society to appear as a harmonious one, the compulsory distortion of all social relations results in everything "standing on its head." Hence all laws of economists or sociologists also "stand on their heads."

The antagonisms are principally, beginning with the most primitive and following it into capitalism:

(*a*) rich and poor	(*b*) master and servant (now capitalist and worker)
(*c*) man and woman	(*d*) ruler and ruled
(*e*) town and country	(*f*) manual and intellectual labor

Derivative Divisions

(*a*) buyer and seller	(*b*) lender and borrower
(*c*) landlord and tenant	(*d*) sacred and profane persons
(*e*) freeman and slave	(*f*) patrician (nobleman) and plebeian.
(*g*) oppressor and oppressed	

The above classifications are not exclusive; they are merely indicative. Nor are they philosophical; the ownership of means of production by private persons is the dominant form, of which the others are expressions.

Secondary Antagonisms within Classes

mortgagee and house owner	landed magnates *vs.* capitalists
shippers *vs.* railroads	*rentiers vs.* industrial speculators
businessmen *vs.* bankers	

and so on to as many antagonisms as there are possible groupings.

Internal Differences

small grocery proprietor *vs.* his clerks (workers) *vs.* chain stores (capitalists).

Engels states that in the "value form of the product, as in a folded bud, is the whole form of capitalist production, the antagonism between capital and wage-labor, the industrial reserve army and crises." This means that political economy is first of all a study of class contradictions. The motor of society is the grouping of persons for economic ends.

If all things appear to be something else, that means that the thing that they appear to be must seem to be the incarnation or repository of certain characteristics which it has not. These appear to cause phenomena. This is *fetichism*. Here is a partial list.

(*a*) Goods being made to sell, it appears as though their value in exchange is proportional to the quantity of any *commodity* they command, and not as the exchange of human labor for human labor.

(*b*) Social labor is thus expressed not as the equivalent of social labor but as the equivalent of a *commodity*.

(*c*) Capitalists buy labor-power and thus *production* is made an attribute of capital, not of labor.

(*d*) Wages are a payment for time, and thus appear as a payment for full time.

(*e*) The rich own, but their ownership functions only because the laborers produce, but the fact that there are two in the relation makes them take on the masque of a "factor in production."

(*f*) Value can only be realized by way of the *body* of another commodity, hence value appears as an attribute of *goods*.

(*g*) Value that is social can appear only as the attribute of a privately appropriated commodity; it appears to have value as *property* individually.

(*h*) Production increases but value diminishes.

(*i*) Value can never be realized, since price approximates it but *must* socially deviate from value, as individual price. Hence social and individual price *contradict* each other (but prices *appear* as value).

(*j*) A commodity has a social aspect (value), and individual aspect (use) in one thing, unseparated, yet it must be realized *divided*.

The list can be considerably extended from sources in the book.

Bibliographical Guide

Appendices

Glossary of Marxian Economic Terms

A Socialist Chronology

Index

Bibliographical Guide

Miscellaneous Bibliography

The sources of Marxian economic theory and cognate subjects are listed by J. Stammhammer, *Bibliographie des Sozialismus und Kommunismus,* in three volumes, published in Jena from 1893 to 1909. Although these contain numerous omissions, Stammhammer is still the most dependable source for reference.

Despite the war confusion in Europe, and consequent scholarly incompleteness, the effort of Ernest Drahn in his *Marx-Bibliographie* (2d ed. 1923) to summarize the literature is still helpful, especially for that centering about the debate on imperialism and dictatorship of the proletariat. He also covers a much wider range, and, because of new items, makes up for Stammhammer's defects.

E. Czobel and P. Hadju, associated with the Moscow Marx-Engels Archives, have listed in Volume I of that institute's researches (pp. 467-549) literature strictly concerned with Marx and Engels that appeared in 1914-1925.

The *Select Bibliography of Modern Economic Theory from 1870 to 1929* by H. E. Batson (N. Y., 1930) is grossly inadequate on Marxism. The most significant criticisms that have entered into classic economic literature are ignored.

I have not included a good summary of Russian and Italian sources, because it would be a useless parade of pedantry. Many curiosities are cited in Lenin's *Teachings of Karl Marx.* The works of Russian critics, such as Maslov on rent theory, for example, are said to be important, but so long as they are not translated into Western languages will be available to few students.

Under the captions, Dialectical Materialism, Socialism, Socialist Economics, Karl Marx, etc., the *New Encyclopaedia of Social Science* and, under similar headings, the older *Encyclopaedia of Social Reform* of W. D. P. Bliss, are helpful for the literature.

The most precious sources, though, are given in Grünberg's *Archiv d. Sozialismus* (Frankfort, 1910-1933); *Die Neue Zeit,* official organ of the German Social Democratic party for forty years, which contains a wealth of Marxian economic studies including such brilliant analysts as Otto Bauer and "Parvus," whose answers to the Austrian School

are scintillating: the Communist intellectual clearing house, *Unter der Banner des Marxismus;* four years' wealth of documentation on the agrarian question, *Agrar-Studien;* the Socialist publication of Hilferding directed against the Third International, *Gesellschaft;* the series of agricultural and fiscal studies in *Cahiers du Bolchevisme* (Paris); also the psychological, literary, economic, and critical articles in the beautifully written French Marxian review *Commune.*

For the United States the scholar can best consult the literature references in J. R. Commons's *History of Labor in the United States* (2 v., 1921); A. M. Simons's *Social Forces in American History* (N. Y., 1915); M. Hillquit's lively if slick *History of Socialism in the United States* (N. Y., 1903); for the Utopian developments in America, J. H. Noyes's *History of American Socialism* (1870) is useful. Nordhoff's study of the same subject is more humane and literary.[1] The best documentation on American early Socialism and its theories is in German: R. Liefmann's *Die kommunistischen Gemeinde in Amerika* cites complete literature. The work of Bimba, *The History of the American Working Class,* gives scattered sources.[2]

The Marxian publications houses whose catalogues may be consulted (especially those for past years) are Charles H. Kerr & Company (Chicago), International Publishers (New York), S. L. P. Press (Cliff Street, New York), Lawrence & Wishart (London), and Editions Sociales Internationales (Paris). The last-named firm is doing the most for original work in Marxian sources. The present repression in Germany has led to the formation of two large Marxian publishing houses, Querido-Verlag in Amsterdam and Opprecht und Helbling in Zürich.

Latterly two critical periodicals have been founded in English-speaking lands, *Science and Society* in the United States and the *Modern Quarterly* in England. The *Labor Monthly* of London, organ of R. P. Dutt, has long been an arena of Marxian theoretical discussion.

It is impossible here to refer to the spate of learned Marxian periodicals that have appeared and disappeared. The *New Review* of New York (1913-15), for example, can be cited for its remarkable intellectual contributions, as also the more popular *International Socialist Review.*

[1] *The Communistic Societies in America.*

[2] German sources in America include the excellent pamphlets of Herman Schlueter and his English monograph, *Lincoln, Labor and Slavery* (New York, 1913), and especially *Die Anfänge der Deutschen Arbeiterbewegung in Amerika* (Berlin, 1907—German), the best account of the roots of American Marxism.

As to dictionaries, they are legion. The best are Compère-Morel's *Dictionnaire du Socialisme,* and the various labor guides, such as the Labor Fact Books of the Labor Research Bureau, American Labor Annuals, etc. (also those of the British Labour Research Bureau).

I have left out of account the immense number of books on Bolshevism, the contemporary labor movement, etc., unless they illustrate some point in the economic theory of Marx, or in those philosophic aspects of Marx not easily separated from his economic system. To have enumerated the shoals of literature on Socialism is a form of bibliographical map-making that would serve no theoretical purpose.

Bibliography of Marx and Engels

Note: No complete edition of the works of Karl Marx and Frederick Engels exists in any language. During the last fifteen years the Marx-Engels Institute at Moscow has pursued the task of re-establishing the early texts and a fair number of these have appeared in German. When it is recalled that Marx was a prolific journalist and untiring correspondent and turned to a fly-sheet as well as to the most compendious treatises in economic science, it will be seen that his complete works are not easily brought together, nor are those of Engels.

In the following list, wherever the English version exists it has been preferred to the German. But until recently the translation of Marx was extremely doubtful. New texts are being set up and with the aid of such scholars as Dona Torr in England we may hope that the English versions may yet be written in English instead of a mock-German. The ideas of Marx and Engels have often been falsified by bad translations.[8]

Capital, Vol. I. There are several translations, the best of which is the Samuel Moore version. The Untermann translation is second, and of the many others, the Borchardt edition in the Modern Library and that of the Pauls should be shunned. For practical purposes, however, the Kerr edition of *Capital,* both the Aveling-Untermann version of Volume I and the Untermann versions of Volumes II and III, must be used by the scholar until something better appears.

Theorien über der Mehrwert. This critical history of political economy, the best account of the science down to the time of John Stuart Mill, is available in the Kautsky (Stuttgart) version in 3 volumes, or in the far more readable *Histoire des doctrines économiques* in

[8] Dates of publication are those of the editions I have consulted.

French. If Marxian publishers do not soon undertake this in English, they are derelict in their duty.

Critique of Political Economy. The Kerr version, that is the translation of N. I. Stone, was published in Chicago, 1910. This little book badly needs a new translation, despite the fidelity of Stone. It is being undertaken by Lawrence and Wishart in London. The Critique is little more than the antechamber to *Theorien über der Mehrwert,* but its statement of historical materialism makes it extremely important, as also its remarkable study of the money theory.

Communist Manifesto. Available as a dime pamphlet; critical edition by Adoratsky; best edition in French by Andler.

Value, Price, and Profit and *Wage-Labor and Capital* (Engels's reworking) are available in the Marxist Library (New York), No. 37, or as dime pamphlets.

The Poverty of Philosophy is in the Marxist Library (New York), No. 26 (Kerr edition, 1910).

The Civil War in France concerning the Paris Commune (with the famous preface of Engels) is in the Marxist Library as No. 9.

Class Struggles in France, dealing with the first open struggle of bourgeois *vs.* proletariat in the June days of 1848 in Paris, is Marxist Library No. 9. It should be read as a counterfoil to the criticism of Turgeon, in his *Materialisme historique.*

The Eighteenth Brumaire of Louis Bonaparte is in the Marxist Library as No. 35 and is famous because of the attempt to delineate the minute differences of class interest between sections of the bourgeoisie.

The Civil War in the United States is a collection of articles and letters by Marx and Engels defending the North in the struggle and pointing out the imperialist significance of the establishment of the Southern Confederacy. Historians like Randall in this country could still do with its wealth of economic revelations. Regrettably, the work of Schlueter on the relations of Lincoln and labor have not been stressed here. This is Marxist Library No. 30.

Correspondence of Marx and Engels (Marxist Library No. 29) is a selection, and a very well chosen one, of the two most continuous theoretical correspondents of whom we have had a record (unless the theory of household and salons of Mme de Sévigné be so considered). The average student could use little more.

Letters to Kugelmann (Marxist Library No. 17) are a series of letters, largely on political economy, addressed, of all things, to a friend

who was a gynaecologist io Hanover. Perhaps Marx, who always considered the proletariat the midwife of a new social order, might consider this economic explanatioo appropriate. Kugelmann later disagreed with Marx but not on the economic matters whose discussion here makes Marx simple.

Critique of the Gotha Program. A work of overshadowing politico-economic importance. If this little brochure is studied closely, everything Marx did *not* represeot and which ignorant opinion says he did, is refuted. His differences from Lasalle are made vivid. Marx's pamphlet was perused constantly by Lenin, whose notes reveal his thinking. (Marxist Library No. 11.)

The Eastern Question. Marx, as a friend of Charles A. Dana and Albert Brisbaoe and correspondent of the Fourierist, Horace Greeley, wrote a large number of articles for the New York *Tribune* at the time of the Crimean War. This compilation contains errors, for some of the articles attributed to Marx by bis daughter, Eleanor Aveling (translator of *Madame Bovary*), were included in error. Many of the alleged "mistaken" prophecies of Marx cited by forward journalists are drawn from these spurious articles. The compilation was published by Swan, Sonoenschein io London (1897).

Herr Vogt. This philosophical polemic, written in 1860, was published by Kerr of Chicago and has never been reprinted. It has no economic importance.

Economic Studies (German). Gesamtausgabe (Frankfort); Vol. III, Section I, Part 2 of the Complete Works of Marx and Engels as projected by the Marx-Engels Institute. Complete economic studies of Marx written in Paris prior to 1846 and invaluable for the early history of Marx's economic ideas; issued in 1932. The Hitler government has prevented its continuance at Frankfort.

The German Ideology. This evaluation of the position of Arnold Ruge and Feuerbach appeared in an English dress for the first time io 1939 (London).[4]

Briefwechsel Marx-Lasalle. In 1922 Gustav Mayer published a selection of the correspondence of Marx and Lasalle in German. Economic questions are treated, and the contrast between the Sismondi-Malthus world of Lasalle and that of Marx could oot be sbown more graphically.

[4] Translation not integral. Includes "Feuerbach," which see. Also issued io New York, 1939. I have not listed Marx's *Holy Family*, as it is not very germane to the scope of this book.

Aus dem literarischen Nachlass. Franz Mehring, Marx's biographer, edited the literary remains of Marx and Engels culled from magazines and newspapers and revealing their opinions on a variety of subjects. There are few more significant records of universal interests than this compilation in four volumes (Stuttgart, 1913).

Gesammelte Schriften, 1852-1862 (edited by Ryazanov, Berlin 1917). This two-volume collection of everything written publicly by Marx and Engels after the *Eighteenth Brumaire* really only covers the period to 1856.

Karl Marx, Der dialektische Materialismus, die Frühschriften (edited by Landshut und Meyer, Berlin, 1932). A two-volume compilation of all the early pronouncements of Marx relating to dialectical materialism; an invaluable source-book for his ideas.

Marx und Engels über Historische Materialismus, Ein Quellenbuch. This superb two-volume critical compilation by Hermann Duncker, issued in Berlin (revised) in 1930, is a mine of excerpts on historical materialism and a crushing reply to those who hold that Marx's reference to his historical method are merely in a few fugitive sentences.

Briefwechsel. The complete correspondence of Marx and Engels for forty years to the least fragment obtainable, has been published in German at Moscow by the Marx-Engels Institute in 12 volumes. Other compilations are the above-mentioned Lasalle correspondence, also included in the *Literarischen Nachlass,* and the Correspondence of Marx largely with two friends in America, Sorge and Dietzgen, issued in Stuttgart in 1906.

Note: Early works of Marx such as the *Jewish Question* and *The Hegelian Philosophy of Law* are in the *Literarischen Nachlass.* As all the economic and dialectical materialist and historical materialist early excerpts have been grouped as above cited, detailed comment is superfluous. Marx's *Address to the International* (London, 1864) and his constitution are interesting but show his organizational power rather than economic theory. (Reprinted in *Founding of the First International,* New York.)

Frederick Engels. A great deal of Engels's work consists of collaborations with Marx, his revelatory prefaces to Marx's books (themselves independent classics) and his rewriting in large part of Volumes II and III of *Capital* (so as to connect the Marxian texts) and his reissues of pamphlets such as Wage-Labor and Capital, as the later

Marx would have desired. We have cited his more significant primary works.

Anti-Dühring. The philosophical and ecooomic classic of Marxism. It is Marxist Library No. 18, Marx helped in its writing and edited it. Its survey of dialectical materialism, historical materialism, and the outlines of Marxian political economy are a ooe-volume education io Marxism and worth a hundred minor books and expositions. It is a pity that he had to use the poor pedant he did as an illustration; a reduced edition of the book without reference to the lame ideas of Dühring might help with those who have a distaste for forgotten controversy. The extract (somewhere modified, and with a special introduction and supplemeot on The Mark) ealled *Socialism, Utopian and Scientific,* is the most popular Socialist pamphlet ever writteo outside the *Communist Manifesto.*

The Housing Question (Marxist Library No. 23). The attitude of Engels on the proposed housing reforms of the early seventies enabled the study of land-prices, the divorce of city and country, the swindling of workers by "own your own home" sebemes, and the reproduction of slums constantly as class relations are renewed constantly, to be made topical and to serve as a concrete mode of apprehending Marxism.

Condition of the Working Class in England (Marxist Library No. 36). This astonishing book by a mao of less than tweoty-four showed that Engels, prior to his long associatioo with Marx, must have independently grasped many of his controlliog ideas. It really reduces the role that Sombart and others give Engels, as a mere diseiple of the master. It is the classic indictment of the early factory system and was the foundation of the burniog sections oo the treatment of the worker in Marx's *Capital.*

Germany, Revolution and Counter-Revolution (Marxist Library No. 13). Signed by Marx, these artieles that appeared in the New York *Tribune* are from the pen of Engels. They reveal the weaknesses of doctrinaire communism and socialism and are a superb anatomy of the vacillating bourgeois liberalism of Germany as opposed to the Western lands, a revelation still timely, as was shown by the anemic history of the Weimar Republic, 1918-33.

The Peasant War in Germany (Marxist Library No. 33). An attempt to extend historical materialism to a study of the Anabaptist iosurrectioo of 1525; especially valuable for its study of Martin Luther. Engels was enamored of military history and had his chance here.

Ludwig Feuerbach (Marxist Library No. 15). A small book which gives Engels's view of the transition of Hegelian thought in Marx into dialectical materialism with a reversal of the Hegelian concept of the mind and its role. Feuerbach was for a time idolized by Marx so that this is a valuable study of theoretical origins.[8]

Origin of the Family, Private Property and the State (New York, 1939). This new translation supersedes the older Kerr edition. It is the textbook of Marxians everywhere on primitive communism, the division of society into classes, the nature of the state, and the economic context of social institutions. Challenged as to details more than any other work of Engels, its central thesis, derived from the American Lewis H. Morgan, has suffered rather in chronological than logical sequence.

Capital (Marxist Library No. 34). Engels's review of, summary of, glosses on, and controversies about the economic teachings of Marx's *Capital.*

Engels's *Dialectics and Nature,* with an introduction by J. B. S. Haldane, has just been issued in London.

Handbooks and Selections: Handbook of Marxism, edited by Emile Burns (New York, 1936). A series of carefully chosen extracts taking the apostolic succession down to Stalin, and revealing the continuum of the theory of Marxism in its economic, philosophical, historical, organizational aspects with sidelights on colonial history, etc.

Kark Marx *Selected Works* (edited by V. Adoratsky, New York, 1938). The first volume of this two-volume collection deals with political economy partly, the second does not.

Lee, Algernon (editor), *Essentials of Marx;* reprints most important pamphlets with critical introduction from Socialist Party viewpoint (New York, 1926).

NOTE: Since many of Marx's articles were calmly printed as editorials written by themselves by the editors of the New York *Tribune* from 1851 to 1862, a part of his writings will always be in dispute. Engels wrote for the *New American Cyclopaedia* of George Ripley and Charles A. Dana and for the German *Dictionary of Social Science.* Undoubtedly the Moscow bibliog-

[8] See *The German Ideology.*

raphers will some day track down these important additions to Americana. The letters of Karl Marx and Engels to their American friends, hitherto available only in German, are being issued by the International Publisbers, with some original material, as well.

BOOKS ON MARX, ENGELS, AND MARXISM AS A WHOLE

Mehring, F., *Karl Marx* (New York). So much the first biography that it is a wonder why so many more are produced. Mehring was the cultural leader of German Socialism, and his book has a living quality that is lacking in other biographies. Subsequent research of the Marx-Engels Institute in Moscow may antiquate certain sections of the book, but it will always remain the classic biography.

Carr, E. H., *Karl Marx.*

Lenin, V. I., *The Teachings of Karl Marx,* New York. Part of the compilation, *Marx-Engels-Marxism,* this essay is specifically concerned with Marx's life and his special contribution. It is one of those succinct essays like that of Lord Acton on *German Schools of History* that packs a lifetime into a few pages.

Riazanov, D., *Marx and Engels* (New York, 1927). Biography by the former director of the Marx-Engels Institute, considered by his successors to underrate the revolutionary content of their teachings.

Mayer, G., *Frederick Engels* (New York, 1937). Enjoys the same position with reference to Engels that Mehring does to Marx. Mayer is a good stylist as well as scholar.

B. Nicolaievsky and Maenchen-Helfen, *Karl Marx* (New York, 1937). This recent biography, with a good iconography, is found scattered in all secondhand stores. A good literary summary but more eloquent than profound. It has no errors of fact.

Otto Rühle, *Karl Marx* (New York, 1929). An attempt to create a full-length "psychograph" of Marx largely on a physiological basis. Written by a veteran of proletarian pictorial literature, it is a medical plus Freudian plus Sunday supplement interpretation of Marx's life, albeit of a professed admirer. Follows the hideous precedent of Prinz and Sombart on "compensatory" needs of Marx to elaborate his theory. To be read with great eaution, and, on the whole, rejected.

Loria, Achille, *Karl Marx* (New York, 1920). A charlatan's gem, interesting as an attempt to expiate his insults to Marx on the appearance of Vol. III of *Capital.*

Spargo, John, *Karl Marx, Life and Work* (New York, 1910). The largest American biography. Converts Marx into something like a "gentleman," and this is really too bad. Inadequately documented, and vitiated by a purely reformist attitude.

Beer, M., *Life and Teachings of Karl Marx* (Boston, 1924). As good a one-volume quick summary as could be desired; intellectual integrity and competence are manifest.

Laski, H. J., *Karl Marx*. A polished but doubtful exposition by a man much greater than this book.

Korsch, Karl, *Karl Marx* (London, 1938). The most up-to-date summary, written in a philosophical style with proper emphasis on the development of Marx's ideas; somewbat over-formal on political theory.

Sprigge, J. S., *Karl Marx* (London, 1938). Small, serviceable manual by an admiring disciple.

Bibliography on Marxian Economic Theory

Böhm-Bawerk, E. V., *Capital and Interest* (London, 1890).

Böhm-Bawerk, E. V., *Positive Theory of Capital* (London, 1891; New York, 1923).

Böhm-Bawerk, E. V., *Recent Literature on Interest* (New York, 1903).

Böhm-Bawerk, E. V., *Karl Marx and the Close of His System* (New York, 1898).

These works of the celebrated Austrian economist, E. V. Böhm-Bawerk (1851-1914), are the most important critical attacks on Marxian economic theory.

Hilferding, R., *Böhm-Bawerk's Marx-Kritik* (German) (Vienna, 1904).

Hilferding, R., *Böhm-Bawerk's Criticism of Marx* (Glasgow, 1920). The celebrated reply of Hilferding to Böhm-Bawerk, certainly the best Marxian reply, is given in German here as I have failed to find a copy of the English translation in any New York library.

Boudin, L. B., *The Theoretical System of Karl Marx* (Cbicago, 1907).

Kuczynski, J., *Zurück zu Marx* (German) (Leipzig, 1926). These are the two best general defenses of Marxian economic theory against the totality of critics on the bourgeois and revisionist sides both.

Joseph, H. W. B., *The Labor Theory of Value in Karl Marx* (London, 1923).

Lindsay, A. D., *Karl Marx's Capital* (London, 1925).

Two scholastic accounts, Joseph supercilious, Lindsay critical but sympathetic; both based on Idealist approaches.

Simkhovich, V. G., *Marxism vs. Socialism* (New York, 1913; subsequent editions). A sort of omnibus of all the revisionist objections to Marx.

Skelton, O. D., *Socialism* (Boston, 1913). A somewhat too assured and "slick" but unquestionably competent examination of Marxian theory; useful rather for the state of mind it represents and for its thorough preparation than for originality. The best American (really Canadian) hostile examination.

Sachs, A. S., *Basic Principles of Scientific Socialism* (New York, 1923). A recapitulation of Marx, apparently a popularization, but full of unexpected and helpful aids to the serious beginner.

Laidler, H. W., *History of Socialist Thought* (New York, 1927). A popular illustrated history of Socialist doctrines, much too summary (of necessity), due to its compression, on economic theory. From my point of view, fluctuating in its statement of Marxian doctrine.

Bernstein, E., *Evolutionary Socialism* (London, 1909). The classic of Revisionism; somewhat dated.

Grossmann, Henryk, *Das Akkumulation und Zusammenbruchgesetz des kapitalistischen Systems* (Leipzig, 1929—German). Whatever may be thought of Grossmann's accumulation theory, it is the most complete documentation extant of the debates on Marxian accumulation and crisis theory, and the most elaborate reply to Luxemburg.

Luxemburg, Rosa, *Das Akkumulation des Kapitals* (Berlin, 1913—German). The most celebrated attempt made to refute the Marxian notion that extended reproduction was possible in a closed capitalist economy.

Lenin, V. I., *Imperialism*.[6] A masterly summary of the viewpoint that monopoly capitalism and the fusion of industrial and finance capital have created a new situation, characteristic of the present age and requiring a special application of Marxian analysis.

Bukharin, N., *The Political Economy of the Leisure Class* (New York, 1927). An attempt to turn the tables on the Austrian school by examining their theory from the Marxian viewpoint. Adds little to the bourgeois criticisms of von Bortkiewicz and the Marxian of Hilferding, but is sprightly, learned, and scholastically adept.

Hilferding, R., *Das Finanzkapital* (Vienna, 1910—German). Whatever differences may exist on theory, the most complete Marxian study of finance capital in the post-Marxian period.

[6] A new edition, with explanatory data by Varga and Mendelsohn (New York, 1939), is the most helpful version.

Muhs, K., *Anti-Marx* (Jena, 1927—German). The arsenal of all anti-Marxist arguments, in strange disarray and with little logical cohesion.

Tugan-Baranowski, *Modern Socialism and Its Historical Development,* (London, 1910). The most adroit economic criticism of Marxism after Böhm-Bawerk, Tugan-Baranowski is a compound of revisionist and renegade from Marxism; on the economic side he is what Werner Sombart is on the social, historical, and philosophical.

Halbwachs, M., *La Classe ouvrière et son niveau de vie* (Paris, 1913—French). An attempt to give concrete value to the idea of the reproducible value of labor-power. Not Marxian but Durkheimist. Challenging.

Diehl, Karl, *Über Sozialismus, Kommunismus, Anarchismus* (Berlin, 1922—German). A comprehensive anthology and review, Marxian included, by the dean of anti-Marxian academic critics in Germany.

Sombart, W., *Das proletarische Sozialismus* (2 volumes, Berlin, 1924—German). This later edition of the classic work, *Socialism and the Social Movement,* of Werner Sombart is far and away the most important attack ever made on the whole system of Marxism, philosophical and economic alike. Although Sombart was inspired as an economic historian by Marx, here he turns renegade. He refuses to examine Marx's specific economic doctrines, as he once did so brilliantly, for he holds its every assumption invalidated methodologically. Nevertheless his implicit criticism testifies to a lifelong experience.

The book is marred by some cunning deliberate misstatements, obvious senile manias, and the determination to execute the victim be the facts what they may. Sombart especially considers the capitalist system as a temporary plunder of man's stored-up resources and foresees a lower level of material culture that must exclude the historic aims of any Socialist system. Denies the entire historical-economic thesis of Marx and Engels. A detailed reply is made especially on the question of economic-historical method by J. Kuczynski in the fourth section of *Zurück zu Marx.*

Hirsch, M., *Democracy vs. Socialism* (New York, 1901). Omnibus of single-tax objections to Marxian analysis.

Diehl, K., *Die Grundrententheorie in ok. Syst. v. Karl Marx* (Conrad's Jahrbücher, Vol. 72, 1899—German). Examines Marx's theory of absolute and differential rent with marked skepticism.

Dobb, Maurice, *Wages* (Cambridge University Press). Marxian exposition. Compact, helpful, adapted to students.

Dobb, Maurice, *Political Economy and Capitalism* (New York, 1939). The best Marxian examination of the present position of political economy.

Strachey, John, *Nature of Capitalist Crisis* (New York, 1935). *Theory and Practise of Socialism* (New York, 1936). Two Marxian studies, the first a critical examination of theories of crises of leading circulation schools, together with an exposition of the pre-monopoly theory of crises, the latter an elementary rearrangement of Marxian thought without an overemphasis on detailed economic content in Marx. Both helpful, and despite much criticism from Marxian sources, they are on the whole among the most successful popularizations extant in English. Strachey's expository gifts are unusual. They lack a philosophical content, and in this they are not much superior to such documents as Leontiev.

Leontiev, A., *Political Economy*. An exposition of Marxian doctrine, mouthpiece of the Communist Party and long an official textbook. Mingles present party issues with much eloquence and constant repetition with a letter-perfect reproduction of every previous party textbook. Will probably soon be retired, as it is written in a style incomprehensible to Americans and contains minor inaccuracies on Marxian economic theory.

Segal, L., *Principes d'économie politique* (Paris, 1936—French). Used by the French- and German-speaking Communist parties. On a wholly different plane from Leontiev, it is remarkably arranged, shirks no question, makes no errors in exposition, and is distinctly a fine intellectual performance. It remains a mystery why it has not been translated into English.

Kuczynski, J., *New Fashions in Wages Theory* (New York, 1938). *Labor Conditions in Western Europe* (New York, 1937). *Hunger and Work* (New York, 1938). These three works by the foremost Marxian statistician deal with the theory of increasing misery, the areas of employment utilized by given capitals, a really trenchant attack on Rueff and Keynes among wage theorists from the strict Marxian viewpoint, a study of American *unproductivity* that may actually extend Marxian analysis.

Political Economy in Twelve Lessons (Marxian, New York, *circa* 1933). Adapted from the German of Duncker for British use and issued about 1933; despite the political "dating" of associated chapters, remains, as a totality, the best popular exposition of Marxian economic theory in English. It is German in method, though, and this

may make its treatment difficult for American students, but it must be read.

Cole, G. D. H., *What Marx Really Meant* (New York, 1935). An attempt to align Marxian thinking in economies with what Cole fancies as a more modern approach. A tissue of distortions and errors.

Lenin, V. I., *Marx-Engels-Marxism*. Among these excerpts is the priceless encyclopedia article on Karl Marx, and every other single contribution of Lenin directly concerned with Marxian and Engelsian doctrine; full of economic commentaries. The wisest and most inspiring study since Marx.

Lenin, V. I., "Agriculture," etc., in Vol. IV of *Collected Works*. The examination of absolute and differential rent, especially of Bulgakov and of the methods of David and the Revisionists, is especially valuable for training in economic and statistical co-ordination.

Varga, E., *The Economy of Capitalism in the Period of Stabilization* (London, 1928). *The Great Crisis* (New York, 1935). *Two Systems* (New York, 1939). Three attempts to align Marxian theory with the concrete developments of present-day monopoly and Fascist capitalism. The theoretical extension of Marx and Lenin is slight, except for the formulation of the peculiarities of the crisis of 1929 as a cyclical phase in a general crisis, and for the distortions in price structure of monopoly capitalism, as leading to differing fiscal expedients from previous crises. The statistical apparatus appears well organized, though sometimes naïve. Varga is not taken quite so much at the valuation he is supposed to enjoy abroad, by Marxian academicians in Moscow, but there are no better books available on the subject he has undertaken, and his studies must stand until some higher talent arises. He has himself evolved and transcended many formalist errors contained in his previous works.

Burns, Emile, *The Only Way Out* (London, 1933). *Money* (London, 1938). Joys to the reader, for their limpid prose, brevity, educational quality, exactness. Perhaps the two best essays to make students actually *enjoy* Marxism.

Huberman, Leo, *Man's Worldly Goods* (New York, 1937). The American Burns, racy, witty, clear. His chapter on primitive accumulation, "where the money came from," is delightful.

Corey, Lewis, *The Decline of American Capitalism* (New York, 1934). *The Crisis of the Middle Class* (New York, 1935). The former is the most comprehensive attempt ever made to link Marxian

presuppositions with the present American capitalist situation and the latter an attempt to break down the amorphous concept of the "middle class." The theory of the exhaustion of long-term factors is not Marxian; the book as a whole impresses rather by its marshaling of data than by its theoretical appositeness. In the middle-class study, a somewhat too rigorous Jeremiad is sustained; it is, so to speak, a *hyper-Marxism* rather than Marxism, Corey employs. Were he to rearrange his theoretical study and group the facts in that changed setting his two books could become extremely valuable for the American scene. Corey also suffers from the desire to bring down his capitalist flock of birds with every kind of statistical shot in his lockers, but some do not fit the Marxian rifles.

Croce, B., *Marxian Economics and Historical Materialism* (New York, 1914). An attempt by the greatest living Italian philosopher to give the significance of the Marxian economic categories in a wider setting. Here the question is philosophical: if one accepts Croce's philosophy, his study of the theory of value is illuminating; if not, not.

Adler, G., *Die Grundlagen der Karl Marx'schen kritik der bestehenden Volkswirtschaft* (Tubingen, 1887, 2d edition 1917—German). Vigorous vindication of Marx's critical examination of Capitalism and a good reply to the earlier strictures of the Austrian school.

Slonimiski, L., *Versuch einer Kritik der Karl Marx'schen ökonomische Theorien* (Berlin, 1899—German). An extremely hostile criticism of every single Marxian economic concept, in a breezy journalistic style.

Fischer, Paul, *Der Marx'sche Werttheorie* (Berlin, 1899—German). Elaborate and reiterated formal analysis of every quirk in Marx's deductions of totality of value and individual commodity analysis.

Hammacher, *Das philosophisch-ökonomische System des Marxismus* (Leipzig, 1910—German). This enormous book is referred to respectfully by all Marxian bibliographers, I have read it carefully for light as to the inner connection of Marxian concrete economic ideas and philosophical assumptions and found it thin in tissue. It is its excellently arranged, numerous citations that must be the cause of its universal celebrity. It is a repertoire and nothing else.

Kautsky, Karl, *The Economic Doctrines of Karl Marx* (London, 1925). This translation of a popular manual by the old high priest of Marxism is serviceable for it is an excellent guide to Volume I of *Capital* and the average rate of profit theory in Volume III.

Bernstein, E., *Die ökonomische Lehre von Marx, der III Band des Kapitals* (Berlin, 1902—German). The Revisionist attempt to state that the third volume of Marx and the average rate of profits theory is a "correction" of the immature assumptions of the first volume, which had explained little correctly.

Riekes, Hugo, *Wert und Tauschwert* (1899—German). A hostile examination of Marx's distinction between value and exchange value by a believer in subjective utility theories.

Von Bortkiewicz, L., *Wertrechnung und Preisrechnung in Marx'schen System* (Archiv fur Sozialwissenschaft, 1907—German). The most fertile writer on economics in Germany attempts to break down the Marxian distioction between *quantity* of value and its realization in variable prices. Von Bortkiewicz does not accept the Austrian critique and his little essay should be read by Marxians who know German, so as to sharpen their theoretical teeth. His wonderful essay on the cardinal error of Böhm-Bawerk's interest theory is also helpful since it contains the implied vindication of Marx against the reproach that he insisted that labor be paid in the present for goods that will be realized in the future.

Von Buch, Leo, *Über die Elemente der politischen Ökonomie. Die Intensität der Arbeit, Wert und Preis* (1907?—German). An attempt to indicate the discrepancies between Marxian time reckoning as a social quantity, and the subsequent quaotity of value and its price reflection. I have looked at it hastily; it seems to contain little that is oot in von Bortkiewicz and Böhm-Bawerk.

Cathrein, V., *Socialism* (New York, 1904). The only large Jesuit study. Hostile. Eclectic in method, and in economic criticism, which is much weaker than the scholastic ethical study where it is much more difficult to come to an issue on facts.

Le Rossignol, J. E., *Orthodox Socialism* (New York, 1907). For a long time the principal American criticism of Socialism; still used somewhat as a textbook. Contains nothing that is not better stated in O. D. Skelton on Socialism.

Aveling, E., *The Student's Marx*. A summary of the first volume of *Capital* by Marx's soo-in-law.

Emmet, W. H., *Marxian Economic Handbook* (London, 1923). Far better than Aveling; altogether the most detailed, exact, pernickety, but invaluable summary of Volume I of *Capital*. Emmet is a true scholastic disciple, the perfect commentator. His book is an exercise in the delicate refinements of Marxian statement, and woe to the

most minute error! He delights in catching up with a host of minor deviations by celebrated Marxians. Full of individual flavor: Mr. Pickwick endowed with a first-rate mind and turned Marxian. My indebtedness to it is large.

Hyndman, H. M., *Economics of Socialism* (London, 1909). An attempt to explain Marxism by a man who led the so-called Marxian socialist movement in England for two generations. It is inexact and misleading but a vigorous economic-journalistic job. It was used seriously as a Marxian source by Professor Henry Clay.

Untermann, E., *Marxian Economics* (Chicago, 1907). An exposition by the translator of Marx's three volumes of *Capital* and a philosophical disciple of Dietzgen. Chunky, fairly unreadable, and surprisingly muddled.

Spann, Othmar, *Haupttheorien der Volkswirtschaftslehre* (Vienna, 1911—German; *History of Economics,* New York, 1930). A critique by the leader of the organic school, which originally sponsored something like the Fascist theory of economic organization. Full of actual misstatements of the Marxian position. Treated fully in the text (critical section, above). Like Willbrandt, he holds that every idea of Marx is wrong, and none is original. Marx was an amazing Calvinist specimen: God blasted him from birth with two scars, one that he could chance on no idea in any field that could possibly be right, and secondly that he could not even originate these infallibly wrong ideas but must steal only the left-handed ones from everybody else. For all that, like Satan, he can tempt tens of millions, although himself the incarnation of sin and error. This solemn nonsense found an American translator and publisher!

Dobb, Maurice, *Capitalist Enterprise and Social Progress* (London, 1925). The best one-volume Marxian study of capitalist evolution.

Liefmann, R., *Geschichte und Kritik des Sozialismus* (second edition, Leipzig, 1923—German). Since Böhm-Bawerk no criticism of Marx from the viewpoint of the subjective value school has rivaled this work for scope and sharpness. Liefmann is an authority on structural organization in economic society and is the one exponent of the Austrian school fully aware of the need for economic analysis in terms of the present economic system, as given, apart from purely analytical constructions.

Weber, Max, *Der Sozialismus* (Vienna, 1918—German). Max Weber, in the words of his disciple, Palyi, is the one bourgeois economist of the twentieth century with a fundamentally new economic con-

tribution and the only critic of Marxian economics in a new mold. His general psychic and social theory is invoked. Stimulating, and compels the Marxian defense to probe more deeply into its own assumptions in order to refute the novel objections of Weber. The works of Max Weber cannot be considered here, for they constitute the only systematic non-Marxian system of economic reference in this century. (American "institutionalism" is not as yet integrated.)

Cassel, G., *Sozialismus oder Fortschritt* (Berlin, 1929—German). A critique of Marxian economics from the viewpoint of a denial of the validity of the value concept. Cassel represents the group for whom empirical price relations are the proper weapons of economic exploration. His theory of age composition, too, affects his investment concepts. A highly fashionable economist, his vogue is just beginning to pass away.

Pohle, Ludwig, *Kapitalismus und Sozialismus* (Berlin, 1931—German). The leading general criticism of socialism now current in Europe to replace the older viewpoints of Diehl and Liefmann. Not very original.

Sorel, Georges, *La décomposition du Marxisme* (Paris, 1910). The so-called Syndicalist criticism of Marxian economic theory, hailed for its originality. I have read it with that hope, twice, and have found that apart from gaseous philosophical inflation, there is practically no serious direct criticism of any given Marxian economic concept. Interesting rather as the type of editorial economic writing that made Mussolini so celebrated a polemist, capable of all sorts of ambiguous reference.

Michels, Robert, *Der Verelendungstheorie* (Leipzig, 1928—German). A criticism of Marx's increasing-misery hypothesis as a conceptualization. More will be heard of this book later on, as my instinct for publicity tells me that Michels is due for exploitation as the post-Marxian philosopher to succeed the Pareto and Cassel fashions.

Charasoff, G., *Das System der Marxismus* (Berlin, 1910). Perhaps the best all-around general summary of Marxian economic theory in its relation, point by point, to the whole body of the Marxian doctrine.

Goldschied, Rudolf, *Verelendungstheorie oder Meliorationstheorie* (1901?). See chapter on Revisionism for résumé of its clever thesis.

Guyot, Yves, *Socialistic Fallacies* (New York, 1910). Yves Guyot was French Finance Minister and founder of the most celebrated stock exchange gazette in continental Europe, the *Agence Économique et Financière*. Apart from a subtle, but hopelessly inaccurate, de-

nunciation of the constant capital substitution for living labor, it is amateurish.

Bounatian, G., *Wirtschaftskrisen und Überkapitalismus* (Munich, 1908—German). A tremendously documented attempt to study the exact distortions in crises resulting from the interplay of monopoly capitalism with vestiges of older capitalism.

Grigorivici, Tatiana, *Die Wertlehre von Marx und Lasalle* (Vienna, 1910—German). The most detailed study ever made of Marx's value theories, and by reason of its apposition with that of Lasalle, extremely instructive, especially for isolating the Marxian doctrines against those commonly assimilated to it.

Borchardt, Julian, *La Monnaie d'après Marx* (French). This study in the 1897 *Annales de l'Institut des Sciences Sociales* is one of the few valuable contributions to Marxian monetary theory. Borchardt is a well-grounded Marxian, capable of some strange flights, but this essay is in one of his better moods.

Von Bortkievicz, L., *Die Robertus'sche Grundrententheorie und die Marxistische Lehre von der absoluten Grundrententheorie* (German). (In *Archiv f. Gesch. des Socialismus, etc.*, Volume I, 1910). An excellent exposition of the differences between Marx and Rodbertus in rent theory, and one that should stop their being identified so easily in encyclopedia articles.

Spitz, Philip, *Das Problem der allgemeinen Grundrenttheorie bei Ricardo, Rodbertus und Marx.* (German—in *Jahrbücher f. Nationalök. und Statistik*, Volume CVI, 1916). Perhaps the best account of Ricardian rent theory and its influence on Socialist constructions.

Cornélissen, *Théorie de la valeur avec une réfutation des théories de Rodbertus, Karl Marx, Stanley Jevons et Böhm-Bawerk* (second edition, Paris, 1913—French). Universal massacre of Marxians and Austrians alike. (Not consulted; only reviews read.)

Gonner, E. C. K., *Social Philosophy of Rodbertus* (London, 1899). The great authority on Ricardo turns to Rodbertus and sympathizes somewhat with the idea that Marx was indebted to him and that Engels has not wholly refuted that charge. If Professor Gonner would have read the appropriate sections of Marx, his book would have benefited. His version of rent differences leaves much to be desired.

Adler, Dr. Karl, *Kapitalzins und Preisbewegung* (German).

Kulla, J. R., *Die geschichtliche Entwickelung der modernen Werttheorien* (German). Gives the sources of both Marxian and Austrian theory of values, along with several others.

MARXIAN ECONOMIC THEORY—ORIGINS

Marx, Karl, *Theorien über der Mehrwert* (edited by K. Kautsky, Stuttgart). (French translation: *Histoire des doctrines économiques,* Paris.)

Gide and Rist, *History of Economic Doctrines* (London, 1923). Still the best bourgeois guide and useful for its summaries of French thought, especially of Sismondi and the Utopians.

Haney, L. H., *History of Economic Thought* (New York, 1911, and subsequent edition). Most widespread American history. Shows great admiration for Marx but his restatement of his doctrine and some predecessors cannot but be considered somewhat personal.

Beer, Max, *Allegemeine Geschichte des Sozialismus und der sozialen Kämpfe* (sixth edition, Berlin, 1929—German). (An excellent translation has been made by H. J. Stenning, London, 1922-5.) The best comprehensive history of all Socialist origins, including the specific doctrines of Marx.

Hector, Denis, *Histoire des doctrines économiques et socialistes* (Paris, 1904. 1907—French). Good two-volume study of Marxian origins in the setting of bourgeois economic theory.

Lowenthal, E., *The Ricardian Socialists* (New York, Columbia University, 1911). Indispensable study of Ricardo's nemesis in the shape of the logical extension of his doctrines to socialist deductions.

Brisbane, Albert, *Social Destiny of Man* (Philadelphia, 1840). Fourierist system by an American, later friend of Marx, and father of celebrated journalist, Arthur Brisbane.

Bourguin, M., *Les systèmes socialistes* (Paris, 1904—French). Examines pre-Marxian and Marxian theories; hostile, competent.

Warren, Josiah, *Equitable Commerce* (New Harmony, 1846). Original book by an American "anarchist" who discovered independently all that was significant in Proudhon, and whose idea that cost is a time-equation in labor bears a superficial resemblance to oversimplified Marxism. Valuable for American students as showing indigenous socialist critique. His disciple, S. P. Andrews (*Science of Society,* 1843), universalized his system; also in *Cost, the Limit of Price,* 1853).

Turgeon, C. et C. H., *La Valeur d'après les économistes anglais et français* (third edition, Paris, 1925—French). Gives historical sources of Marxian value concepts by the most celebrated adversary of Marx's historical materialism.

Higgs, Henry, *The Physiocrats* (London, 1897). This little and masterly essay is still the best English study of the most remarkable synthetic school political economy had produced, outside the Marxian.

Oncken, A., *Geschichte der Nationalökonomie, I* (German). Remains the best documented history of definite economic ideas, such as were utilized by Marx in his work.

Cannan, Edwin, *History of Theories of Production and Distribution in English Political Economy* (third edition, London, 1917). This long title is the most critical account of Smith and Ricardo and is useful for correcting Gonner and vindicating the more usual appraisal of Ricardo's value-profit theory.

Whittaker, A. C., *History and Criticism of the Labor Theory of Value* (New York, Columbia University Press, 1904). The best summary in English of the controversy but not significant with respect to the Marxian distinctions.

Menger, A., *Right to the Whole Produce of Labor* (London, 1889). This is the universally used manual of the origins of the specific economic-socialist ideas of Marx, especially the English sources. Its introduction by Prof. Foxwell is a classic. For all that, it should be used cautiously and Bernstein is right in his indignation at the amazingly superficial mode of interpretation with respect to surplus-value. In some respects actually false and misleading. The high reputation of Menger has shielded it from proper appraisal.

Proudhon, P. J., *Complete Works* (issued in 20 volumes, Paris, 1935). Of these the three that even the most adventurous student need glance over are, *Idée générale de la révolution, Systèmes des Contradictions économiques, Philosophie de la misère* (the last the chopping block of Karl Marx's *Poverty of Philosophy*). (All French.)

Hertzler, J. O., *History of Utopian Thought* (New York, 1926). Best account in English of actual theories of Utopians, though a Marxian would dissent from a fair number of deductions.

Steuart, Sir J., *Enquiry into the Principles of Political Economy* (1767). A predecessor admired by Engels and who popularized the term "political economy."

Roberts, Hazel, *Boisguilbert* (Columbia University, New York, 1935). Balanced study of the thinker who, Marx held, founded rent theory.

À la lumière du Marxisme (Volume II, Paris, 1937). A collection of significant writings by French *savants* dealing with the specific con-

tributions of Utopians and Positivists to the Marxian thinking; economic theories cited in part.

Cuvillier, Armaod, *Proudhon* (Paris, 1936—Freoch). Definitive Marxian study of Proudhoo. Supersedes all others.

Armand, F., et R. Maublanc, *Fourier* (2 vols., Paris, 1936—French). Best study of Fourier; not only a restatement of his astonishing critique of production and distributioo but beautifully written as well.

Baby, Jean, *Les précurseurs du Communisme* (Paris, 1936—French). The best authoritative and compact summary of the ecooomic ideas later crystallized in Karl Marx.

Corou, Augustin, *Karl Marx* (Paris, 1934—French). Although the title is comprehensive, this book is limited to the early ideas of Marx and happily blends his philosopbical and ecooomic origins; a model of scholarship and iosight.

Bonar, J., *Philosophy and Political Economy* (New York, 1893). Deals with Proudhon, Marx, and Lasalle. Useful for showiog philosopbical ideas as implicit in all concrete economic doctrioes, despite disavowals.

Bray, J. H., *Labor's Wrongs and Labor's Remedies* (London, 1839). A post-Ricardian Socialist whose influence oo Marx is overestimated by most commentators.

Considérant, V., *Destinée sociale* (Paris, 1836—French). A book that influenced French Utopian socialism and hardened some hitherto amorphous economic ideas. Outrageously overrated as a Marxian source by the anarchist W. Tcherkessof.

Guthrie, W. D., *Socialism before the French Revolution* (New York, 1907). Takes up Mably, Morelly, Meslier, etc.; although its theses are curiously stated, is useful for the antecedents of Babeuf.

Behrens, L. H., *The Digger Movement in the Days of the Commonwealth* (London, 1904). A neglected and tremeodously important study of the most significant predecessor of modero socialism, Gerrard Winstanley (*circa* 1650). Written by a single-taxer, it nevertheless shows, in its summaries, the exteot to which Winstanley even anticipated specific ideas such as those of Lenin in *The State and Revolution*. A historic freak. The expositions of Winstanley in the more highly regarded *History of Democratic Ideas in the Seventeenth Century* of Gooch are far inferior in uoderstanding to Behrens.

Podmore, F., *Robert Owen* (London, 1906). The authoritative life of Owen. Despite its bulk, flabby.

Andler, Charles, *Le Manifeste Communiste* (2 vols., Paris, 1910, 2nd edition—French). Although written by a non-Socialist this is the most critical and thorough account of the actual origin of every single notion in the *Communist Manifesto.* Brushes away fat cobwebs of conjecture.

Bouglé, C., *Les Socialismes français* (Paris, series Armand Colin—French). A critical examination of pre-Marxian economic concepts from the strict viewpoint of the school of Emile Durkheim, and the "Année Sociologique" group. Superficial on value theory, despite the true intellectual eminence of its author.

Pareto, V., *Les Systèmes Socialistes* (Paris—French). A discursive organic study of various economic theories of socialism, including pre-Marxian, by a much gazetted economist and philosopher, recently re-established *à la mode.*

Fouillée, Alfred, *Socialisme et la sociologie réformiste* (1910—French). Used for a long time by Felix Adler as the Bible of Socialist criticism (especially of origins) at Columbia University. Requires the same idealist act of faith as most books of its *genre.*

Bernstein, E., *Zur Geschichte und Theorie des Sozialismus* (Berlin, 1901—German). A splendidly documented account of economic theories leading to Marx, given in correct filiation. Bernstein's fame may survive more on account of this book than because of his Revisionism.

Charléty, S., *Histoire du Saint-Simonisme* (Paris, 1896—French). A solid, excellent account of every current—economic, social, and mystical—in Saint-Simon's contribution. The writer is now head of the University of Paris.

Aftalion, Albert, *L'œuvre économique de S. de Sismondi* (Paris, 1899—French). Best common-sense history of his special doctrines.

Grossman, Henryk, *S. de Sismondi et ses théories économiques* (Warsaw, 1924—French). Brilliant study of the astonishing continuity of Sismondi's underconsumptionism and its Protean forms down to our time.

Taun, Mao-Lin, *Sismonde de Sismondi as an Economist* (New York, Columbia University, 1927). Thesis by a Chinese scholar; the only English study.

On Historical Materialism and Dialectical Materialism:

Note: Although this book is concerned primarily with Marxian economic theory, that is so interwoven with these two other threads that the student is entitled to a guide to the literature on the related subjects.

Masaryk, T. G., *Die philosophischen und soziologischen Grundlagen des Marxismus* (1899—German). A comprehensive but not very profound study of Marxian philosophy by the distinguished liberator of Czechoslovakia.

Cunow, H., *Die Marx'sche Geschichts, Gesellschafts und Staatstheorie* (2 vols., 1922—German). Most erudite and elaborate analysis of the Marxian theory of the nature of society, history, and the State. Strongly contested as to conclusions by the followers of V. I. Lenin.

Lenin, V. I., *Materialism and Empiriocriticism* (New York, 1927). The greatest Marxian attack on idealism and "phenomenalism"; obscurely translated, so that a new edition is being prepared. It is the Bible of the philosophical Leninist school. It must be read carefully, for it is embedded in topical references and is sharply controversial.

Lenin, V. I., *The State and Revolution*. Perhaps the most important political pamphlet written since the *Communist Manifesto*. Draws on Marx's notes on the *Gotha Program*, and Engels's closing reflections in *Origin of the Family . . .*, as also in *The Civil War in France*, so as to build up a dynamic interpretation of the State.

Woltmann, L., *Der historische Materialismus* (Berlin, 1900—German). A Kantian attack on Marx's inverted Hegelianism. By an acrid but profound scholar, later lost in a maze of exaggerated nationalist thinking, and who died quite young.

Plenge, Johann, *Hegel und Marx* (Berlin, 1911—German). The most valuable study of the philosophical filiation of Marx but hostile and in some respects quite vicious.

Lukacs, George, *Geschichte und Klassbewustsein* (Berlin, 1923—German). By far the most audacious and critical effort to place the theory of class consciousness in the forefront of history, to explain its mechanics, and to identify its relationships exactly.

Labriola, Antonio, *Historical Materialism* (Chicago, 1904). A gracious and profound study of historical materialism; deals especially with the role of individuals.

Labriola, Antonio, *Socialism and Philosophy* (Chicago, 1904). One of the rare manuals available in English which deals with the philosophical critics of Marx and replies in detail. (Pre-Leninist.)

Plechanov, George, *Fundamental Problems of Marxism* (New York, 1933). A series of essays by the leading Marxian philosopher prior to Lenin and which are models of concrete application.

Adoratsky, V., *Dialectical Materialism* (New York, 1937). A small manual, somewhat too drily stated, but useful to beginners. Adoratsky is a deep scholar who tries to "write down" consciously as though afraid that the exposition of the intricate matters at issue might dull the general thesis.[7]

Stammler, R., *Wirtschaft und Recht* (Leipzig, 1896—German). As important a negative examination of historical materialism as Böhm-Bawerk on Marxian economics; it is, in fact, the classic counter-thesis. Stammler holds that the legal framework of society is central for economic concepts. Lenin and Plechanov, though dissenting, were stimulated by his opposition. His second book, *Materialistische Geschichtsauffassung* (1921), generalizes his position on Marxism.

Seligman, E. R. A., *The Economic Interpretation of History* (original edition, New York, 1903). The earliest American examination of the Marxian historical thesis, well documented; repeats all the usual cultural objections to the doctrine. Seligman, here as everywhere, is the polyhistor, the academic authority vibrant. I did not find it especially important, though.

Rogers, Thorold, *The Economic Interpretation of History* (London, 1885). The earliest attempt at a non-Marxian economic interpretation, full of unproved and theatrical statements, but a well of inspiration.

Lenz, F., *Staat und Marxismus* (Berlin—not read).

Sorel, Georges, *Reflexions sur la violence* (Paris, 1910—French).

Berth, Eduard, *La Fin d'une culture* (Paris, 1910—French).

Sorel and Berth hold the "mythological" and "Bergsonian" variant of proletarian historical motion. Berth is a literary master as Sorel a political talent; their examination of Marxian postulates is hurried and hysterical. The replies of Charles Rappaport on "Déterminisme historique" based on the philosophy of Pierre Lavroff, a Russian

[7] Replaced by the masterly section on "Dialectical Materialism" in the recent *History of the Communist Party of the Soviet Union,* which is far more illuminating, in fact, is the best short description available.

correspondent of Marx, are themselves dubious as Marxism. The state of the controversy showed the comparative "literary" quality of French Socialism, and led to the formation of the present critical school.

Von Mises, L., *Die Gemeinwirtschaft* (Berlin, 1922—German; translated as *Socialism,* London). Dr. von Mises directs his batteries of heavy artillery against the historical materialist basis of Marxism, thence to derived economics, and finally to the annihilation of present collective economy in Russia. Altogether a complete military campaign.

Kautsky, Karl, *Die Marxistische Staatsauffassung* (Berlin, 1923—German). An attempt to integrate Marxian teaching on the state, as opposed to the derivations of Lenin.

Oppenheimer, Franz, *Kapitalismus, Kommunismus, Wissenschaftliche Sozialismus* (Berlin, 1919—German). The usual ethical, sociological, and single-tax analysis of the author, carried out systematically.

Delevski, J., *Antagonismes sociaux et antagonismes prolétaires* (Paris, 1924—French). A non-Marxian attempt to analyze the theory of society as split up into whole groups of antagonistic elements by the system of private ownership of the social means of production.

Robbins, L. C., *Economic Basis of Class Conflict* (New York, 1939).

Kautsky, Karl, *The Class Struggle* (Chicago, 1910).

Kautsky, Karl, *Ethics and the Materialist Interpretation of History* (Chicago, 1906). Two classics of Marxian exposition: well worth study and not dated.

Lowie, R. H., *Origin of the State* (New York, 1927). A reappraisal of Morgan's and Engels's central hypothesis of ethnological evolution; the results are not so divergent as they appear at first to be.

Brameld, Theodore B., *A Philosophic Approach to Communism* (University of Chicago, 1931). A scholarly attempt to reduce ambiguities in Marxian and Leninist philosophical assumptions, somewhat inconclusive but sincere.

Stalin, Joseph, *Foundations of Leninism* (New York, 1932). *Problems of Leninism* (New York, 1932). A wide range of essays and discourses reappraising the national and historical content of Marxism in our time, and bearing the impress of a man who deals with challenging realities at every moment. The study of nationalities is a remarkable expansion of Engels.

Hook, Sidney, *Towards the Understanding of Karl Marx* (New York, 1933). The leading "activist" study of Dialectical Materialism, the essence of which is conveyed in his article on the same subject in

the *New Encyclopaedia of Social Science.* Disregards the centrality of the labor-time theory of value. It should be consulted in connection with the elaborate reviews of V. J. Jerome and E. Browder in *The Communist* (1933). No compromise is possible between these views and those of Hook, especially as he divides natural from social science.

Turgeon, Charles, *Essais dans le materialisme historique* (Paris, 1929—French). Perhaps the most tenacious and detailed reply to Historical Materialism. The inch-by-inch battle Turgeon conducts against Marx's interpretations of the 1848 struggles in France is itself a veritable barricade war.

De Man, Henri, *Psychology of Socialism* (in French, *Au-dela du Marxisme*). An attempt to "bourgeoisify" and psychologize Marxism by the Belgian Finance Minister. Why it is celebrated is a mystery to me.

Veblen, Thorstein, *The Place of Science in Modern Civilization* (New York, 1919). Contains the classic study of Socialist economics of Karl Marx that appeared in the *Quarterly Journal of Economics.* Holds Marxian economic doctrine to be the most logical known but regards its philosophical and psychological tenets as archaic.

Portus, G. W., *Marx and Modern Thought* (Sydney, Australia—W. E. A. Series). The best eclectic manual in English of the total system of Marx; quite a pity that it is available only in Australia and England.

Briffault, Robert, *The Mothers* (3 volumes, London, 1927). Anthropological broadsides to vindicate the Morgan-Engels philosophy of the family.

Paul, William, *The State* (Glasgow, 1920). The Marxian idea of the state and society as seen through the spectacles of the followers of Daniel de Leon.

Passow, Richard, *Kapitalismus* (2nd edition, 1927—German). A terminological essay on the concept "capitalism" and an appraisal of the economic significance of varied interpretations.

Sauerland, Kurt, *Der dialektische Materialismus* (Volume I, Berlin, 1932—German). The beginning of an encyclopedic attempt to examine the minutiae of Marx's philosophy of history and nature, since interrupted.

Troeltsch, Ernest, *Gesammelte Schriften* (pp. 314-371, "Marxistische Dialektik," Tubingen, 1922—German). Considered in some philosophical circles as the most profound evaluation of the Marxian doctrine; Idealist.

Kautsky, Karl, *Der materialistische Geschichtsauffassung* (2 vols., Berlin, 1927—German). Extensive swan-song of the once greatest of Marxians; the bitter and vigorous review of Karl Korsch in *Archive für Geschichte der Sozialismus* (1929) is required reading in connection therewith.

Kautsky, Karl, *Vermehrung und Entwickelung in Natur und Gesellschaft* (Stuttgart, 1901—German). Adapts evolutionary processes to dialectical materialism.

Korsch, Karl, *Marxismus und Philosophie* (second edition, Leipzig, 1930). Best modem Marxian defense on basic philosophic assumptions of the Marx-Engels nature-dialectics; politically errant.

Dietzgen, Joseph, *Philosophical Essays* (Chicago, 1906). *Positive Outcome of Philosophy* (Chicago, 1906).

Untermann, Ernst, *Die logischen Mangel der engeren Marxismus* (Munich, 1910).

Dietzgen and Untermann have a special philosophical theory adapting Marxism. It was accepted only by a small group and is now nearly extinct.

Gorter, Hermann, *Der historische Materialismus* (1909—German). I have not read Gorter but Lenin thought highly of his work. He is celebrated in Germany as a thorough defender of Marxian philosophy and as adding rich details to the theory.

Mondolfo, R., *Le Materialisme historique* (Paris, 1917—French).

Sée, Henri, *Economic Interpretation of History* (New York, 1929). The famous economic historian of France puts in a serried attack on historical materialism; it is far below his excellent historical work in quality. His philosophic mind does not rival his ability to recapitulate historic phenomena.

Bober, M. M., *Karl Marx's Interpretation of History* (Harvard University, 1927). The most important American examination of historical materialism; useful for its canonical summary of the intellectual criticism of Marx. The best book for American students to read so as to become acquainted with the current academic view of limitations of the Marxian explanation.

Bukharin, N., *Historical Materialism* (New York, 1924). The most diffused study of historical materialism as a formal discipline. Richly documented, but there can be little doubt that it expressed a personal approach and was viewed as off center by most Marxians when it appeared.

Chang, S. H. M., *Marxian Theory of the State* (Philadelphia, 1931).

Cooper, Rebecca, *Logical Influence of Hegel on Marx* (Seattle, University of Washington Press, 1925).

Myrdal, G., *Das politische Element in der nationalökonomischen Doktrinbildung* (1932—German). Myrdal attempts to illustrate the political assumptions that are implicit in any statement of economic categories and of which Marx is a shining example. Hostile.

Jackson, T. A., *Dialectics* (New York, 1937). By all odds the most entertaining book in English on the subject. Gay, aggressive, well documented, despite its pugnacious sections and deliberate amateur appearance, as well as its annihilation of regiments of straw men, it is invaluable to the English-speaking student.

Prenant, Marcel, *Biology and Marxism* (London, 1937). The dean of French biology reappraises Darwinian experience in the light of Marxian doctrine, which he then applies, and be reaches some specific conclusions even as to unemployment!

Sulzbach, W., *Die Anfänge der materialistischen Geschichtsauffassung* (1911—German). The best description of the sources of historical materialism.

Adler, Max. The works of this, the foremost Kantian exponent of Marxian thought, represent a little library in themselves. The most important are: *Kausalität und Teleologie* (Vienna, 1909), *Marx als Denker, Wegweiser,* the last an excellent theoretical account of Marxian forerunners (Vienna, 1931), and above all his ambitious attempt to refute Lenin's *Materialism and Empiriocriticism* in 1931.

Riekes, Hugh, *Die philosophische Wurzel des Marxismus.* This exposition of dialectical materialism attempts to discredit it by showing its "monism" from a materialist viewpoint (in *Zt. f. d. Gesammte Staatswissenschaft,* 1906—German).

Erdmann, Benno, *Die philosophischen Voraussetzungen der Mat. Geschichtsauffassung* (Schmoller's Jahrbuch, 1907). The most encyclopedic philosopher of Germany attempts to crack historical materialism, on a metaphysical basis, by assailing its use of categories, from a Kantian viewpoint.

Minor Books on Marxian Economic Theory and Cognate Subjects.

On Economic Theory

Leroy-Beaulieu, *Le Collectivisme* (Paris, 1885—French). Anti-Marxian.

Pirou, G., *Les Doctrines économiques en France depuis 1870* (Paris, 1929—French). Gives Marxian debate in France.

Hearnshaw, J. C., *Survey of Socialism* (London, 1928).

Keynes, J. M., *Laissez-Faire and Communism* (New York, 1926—pamphlet).

Laski, H. J., *Communism* (London, 1927). Popularization, summary.

Boudin, Lee, Stone, *The Socialism of Our Times* (New York, 1926). References to Value Theory.

Boucke, O. F., *Limits of Socialism* (New York, 1920).

Bukharin, N., *ABC of Communism* (Detroit, 1921). Over-schematized.

Taussig, F. W., *Principles of Economics* (New York, 1912). Long study of Socialism.

Seligman, E. R. A., *Principles of Economics* (New York). Slight reference to Marx.

Hobson, J. A., *Economics and Ethics* (Boston, 1924). Contests surplus-value.

Beer, Max, *Communism*. Historical economic survey.

Hillquit, M., *Socialism in Theory and Practise* (New York, 1906). Kautskyist.

Tawney, R. H., *The Acquisitive Society* (London).

Laidler, H. W., *The New Capitalism and the Socialist* (New York).

Hobson, J. A., *Imperialism* (London, 1905). Source-book for Lenin.

Von Wieser, *Natural Value* (London, 1893). Austrian classic.

Boucke, O. F., *A Critique of Economics* (New York, 1922).

Laidler, H. W., *Concentration and Control in American Industry* (New York, 1931).

Anderson, B. M., Jr., *Social Value* (Boston, 1911). Ammunition for attack on Austrians.

Anderson, B. M., Jr., *Value of Money* (New York, 1916). Entertaining.

Cannan, Edwin, *An Economist's Protest* (London, 1928).

Moore, H. L., *Laws of Wages* (New York, 1911). Imputationist.

Cahen, Hermann, *Capital To-day* (New York, 1915).

Spargo and Arner, *Elements of Socialism* (New York, 1912). Reformist.

Leichte, Otto, *Die Wirtschaftsrechnung in den Socialistische Gesellschaft* (Vienna, 1923—German). Acute extension of Marxism into Socialism.

Bukharin, N., *Oekonomie der Transformationsperiode* (Hamburg, 1922—German).

Sternberg, Fritz, *Der Imperialismus* (Berlin, 1925—German).

Tugan-Baranowski, *Theoretische Grundlagen des Marxismus* (Leipzig, 1908—German). Formulates reconciliation of Marx and Utility school.

Veblen, T., *Theory of Business Enterprise* (New York, 1904). Influenced by Marxism but extremely heterodox. *Bolshevism, a Menace to Whom?* (New York, 1921).

Clark, J. M., *Studies in Economics of Overhead Costs* (New York, 1923). Throws indirect light on Marxian theory of *faux frais*.

Pareto, V., *Manuele di Economia Politica* (Milan, 1904—Italian). Equilibrium critique of Marx.

Moore, H. L., *Synthetic Economics* (New York, 1929). Attempt to create a dynamic, mathematical expression of Clark's imputations.

Dalton, H., *Inequality of Incomes* (London, 1920).

Palyi, M., *Die Wirtschaftswissenschaft nach dem Kriege* (2 volumes, 1925—German). Complete survey of postwar economic theory.

Cassel, G., *The Theory of Social Economy* (New York, 1925). See text.

Kleene, G. A., *Profits and Wages* (New York, 1911). Residual claimant theory.

Clay, Henry, *Economics for the General Reader* (New York, 1926). See text.

Persons, W. M., *Forecasting Business Cycles* (New York, 1931). Gives all theories, excepts the Marxian from notice!

Clark, J. M., *Strategic Factors in Business Cycles* (New York). Tries to isolate varying mechanics of outbreaks of crises, apart from fundamental explanations.

Gray, A., *Development of Economic Doctrine.* Merely sneers at Marx.

Salz, J. A., *Das Wesen der Imperialismus* (1922—German).

Rodbertus, K., *Overproduction and Crises.* See text.

Lewis, J., *Social Credit* (London, 1934). Quasi-Marxian examination.

Britain Without Capitalists (London, 1936). An attempt by a group of anonymous Marxian experts to reintegrate British economic needs into a socialistic organization. Most ambitious concrete Marxian effort.

Rochester, Anna, *Rulers of America* (New York, 1935). Although the most valuable study of plutocracy, is extremely loose in economic classifications and has a fair number of inaccuracies.

Lenin, V. I., *Capitalism and Agriculture in the United States* (New York, 1937).

Friedemann, Georges, *Machinisme et culture* (Paris, 1935—French). Attempts to differentiate capitalist and socialist-intensity of labor by social-economic context.

Economic History (Related to Marxian Analysis)

Ridgeway, William, *The Origin of Metallic Currency* (Cambridge, 1892). A profound archeologist converges on Marxian history.

Cunow, H., *Allgemeine Wirtschaftsgeschichte* (4 vols., Berlin, 1926, 1931—German). The combative and learned textbook of Marxian ethnological and economic history, attacking all opponents, however authoritative. Indispensable to advanced Marxian scholarship. (Even Leninists who attack Cunow's theories admit his historic competence as a Marxian.)

Cunow, H., *Zur Urgeschichte der Ehe und Familie* (Stuttgart, 1912—German). The most modern summary of the Engels-Morgan viewpoint; belligerent.

Dopsch, Alfons, *Wirtschaftliche und soziale Grundlagen der Eur. Kulturentwickelung (Cäser bis Karl den Grossen)*. A remarkable study of the origins of European feudalism and the tribal organization of the Teutons and Celts, which denies the factual basis of the Marxian reconstruction. Dopsch generally contests stereotyped pictures of economic evolution. Marxians consider him an overlearned non-thinker. (A condensed translation is *Economic and Social Foundations of European Civilization*, New York, 1937.)

Lenin, V. I., *Britain, an Anthology* (New York, 1936). Continues Marx and Engels special studies on British economic evolution.

Webb, Sidney and Beatrice, *History of Trade Unionism* (London, 1894). *Industrial Democracy* (London, 1897).

Tawney, R. H., *Religion and the Rise of Capitalism* (London, 1926).

Beer, Max, *History of British Socialism* (London, 1913).

Kirkup, Thomas, *History of Socialism* (revised edition, London, 1913).

Oppenheimer, F., *The State* (New York, 1926). Robber theory of the state, like Dühring's Force theory.

Hillquit, M., *From Marx to Lenin* (New York, 1921). Kautskyist.

O'Neal, J., *Workers in American History* (1910?).

Sombart, Werner, *Quintessence of Capitalism* (New York, 1915). English translation of *Der Bourgeois*.

Levine (Lorwin), Louis, *Labor Movement in France* (New York, 1911).

Commons, J. R., *Legal Foundations of Capitalism* (New York, 1924).

Weber, Max, *General Economic History* (New York, 1927).

Roll, Erich, *A History of Economic Thought* (New York, 1937).

De Leon, Daniel, *James Madison and Karl Marx* (New York, 1920). Reprint.

De Leon, Daniel, *Two Pages from Roman History* (New York, 1905). Inspired Lenin to high praise.

Bebel, August, *Woman* (New York, 1905). Marxian classic on Feminism.

Fine, Nathan, *Labor and Farmer Parties in the United States* (New York, 1929). Historical survey, 1828-1928.

Kullischer, J., *Allgemeine Wirtschaftsgeschichte* (2 volumes, second edition, Jena, 1927—German). By long odds the greatest history of modern economic life in any language.

Dawson, Wm. Harbutt, *German Socialism and Ferdinand Lasalle* (New York, 1899). Best study of Rodbertus's economic system.

Brandes, G., *Ferdinand Lasalle* (New York, 1925). Slightly economic.

Berr, Henry, *Le Synthèse en histoire* (Paris, 1911). Useful for its reproduction of *every* theory of history, both materialist and idealist.

Simons, A. M., *Class Struggles in America* (Chicago, 1909).

Simons, A. M., *The American Farmer* (Chicago, 1910). Leading pre-Leninist, Marxian study.

Isambert, G., *Histoire des idées socialistes en France, 1815-1848* (Paris, 1905—French).

Halévy, Élie, *La Formation du radicalisme philosophique* (3 volumes, Paris, 1901-04—French).

Ward, *The Ancient Lowly* (2 volumes, Chicago, 1904). Amazing oleo, unsystematic, uncritical, but rich in information as to class struggles in antiquity; ought to be redone by a serious scholar.

Gerard, Walter, *Le Communisme* (Paris, 1928—French). Good breezy account of all communistic theories, including Marxian.

Laskine, Edmond, *Le Socialisme suivant les peuples* (Paris, 1920—French).

Weill, Georges, *Histoire du mouvement social en France, 1852-1910* (1912—French). Best account of French Marxianism in setting.

Mavor, J., *Economic History of Russia* (2 volumes, 1914).

Hutt, Allen, *Condition of the Working Class in England* (1934). Brings Engels up to date; superb writing.

Dutt, R. P., *Fascism and Social Revolution* (New York, 1934). Marxian summary of economic causes of Fascist state-form.

Muller, Jean, *L'Idée de la lutte des classes depuis le Manifeste Communiste* (Paris, 1911—French).

Hyndman, H. M., *Evolution of Revolution* (London, 1909).

Brissenden, Paul, *The I. W. W.* (Columbia University Studies, New York).

Soul, L., *Materiaux pour une histoire du prolétariat* (Paris, 1919—French).

Fay, C. R., *Life and Labor in the Nineteenth Century* (London, 1920).

Douglas, Hitchcock, Atkins, *The Worker in Modern Economic Society* (London, 1923).

De Levasseur, *Histoire des classes ouvrières en France, 1789-1870* (Paris, 1904—French). Best account of genesis of proletariat as a functioning class.

Kautsky, Karl, *Foundations of Christianity* (New York, 1932).

Beer, Max, *Social Struggles in Antiquity* (New York, 1933).

Beer, Max, *Social Struggles in the Middle Ages* (New York, 1933).

Hutt, Allen, *This Final Crisis* (New York, 1935). Really a summary history of British economics since Waterloo.

Saposs, David, *Left-Wing Unionism* (New York, 1926). A more significant study of syndicalism and the I. W. W. than Brissenden. Saposs understands the far more socialist character of American industrial unionism, than, say, Spanish syndicalism.

Simons, A. M., *Social Forces in American History* (New York, 1914).

Stern, B. J., *Lewis H. Morgan* (New York). Declares unilateral evolution basically modified.

Bibliography of Non-Marxian Books on Socialism and Allied Subjects

Anarchist

Kropotkin, P., *Mutual Aid* (London, 1904). Indispensable.

Kropotkin, P., *Fields, Factories and Workshops* (London, 1908).

Tucker, B. R., *Instead of a Book* (Boston, 1893).

Tcherkessoff, W., *The Doctrines of Marxism* (Part translation, New York, 1902).

James, C. L., *History of the French Revolution* (Chicago, 1902). Denies Marxian method.

Anarchism—Marxian Reply

Plekhanoff, George, *Anarchism and Socialism* (New York, no date).

Note: Numerous critiques by Plekhanoff appear in his collected works in 26 volumes (Russian, Moscow).

Nettlau, Max, *Bibliographie de l'anarchisme* (Brussels, 1897). Gives the sources of economic theory, recapitulates early anarchist Marxian critiques.

MODERN UTOPIAN

Bellamy, Edward, *Looking Backward* (Boston, 1889). Egalitarianism.
Morris, William, *News from Nowhere* (London, 1887).
Wilde, Oscar, *Soul of Man under Socialism* (London, 1885).

FORMAL SOCIALIST (LITERARY)

Gronlund, Laurence, *Co-operative Commonwealth* (New York, 1886).
Wells, H. G., *New Worlds for Old* (London, 1908).
London, Jack, *The Iron Heel* (New York, 1912). Vigorous analysis in disguise of fiction.

ECONOMIC STATISTICS

Douglas, Paul H., *Real Wages in the United States* (Boston, 1930).
Clark, Colin, *A Critique of Russian Statistics* (London, 1939). This Fabian scholar is both critical and captious of the bases of the impressive Russian figures, especially of production. Somewhat strained and overstresses minor faults in procedure, but confirms recent gains in well-being of Russian workers.

ECONOMICS

Lexis, W., "The Third Volume of Marx's Capital," *Quarterly Journal of Economics*, 1895.
Shaw, B., *Intelligent Woman's Guide to Capitalism and Socialism* (London, 1928). See text.
Fabian Essays (London, 1888). Classic formulation of English "gradualism" and State Socialism.
Penty, A. J., *Restoration of the Guild System* (London, 1911). Highly colored history of medieval happiness of labor.
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Lozovsky, A., *Marx and the Trades Unions* (New York, 1935).
Cunow, H., *Die soziale Verfassung des Inkareichs* (1927).
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TREND OF RECENT BOOKS RELEVANT TO MARXIAN ECONOMIC THEORY AND HISTORICAL MATERIALISM

Marxism is very much *à la mode* among intellectual circles at the moment, and the books pro and con have multiplied beyond the attention of specialists. Certain tendencies predominate:

A. The debate on the economic presuppositions of distribution and planning of production in a socialistic economy, especially as to the price-function under such a society:

Examples: Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism* (Minneapolis, 1938); of the distinction between planning and Socialism in Carl Landauer's *Planwirtschaft und Verkehrswirtschaft* (Munich and Leipzig, 1931), which deals with the von Weiser hypothesis of the persistence of "value" under Socialism; of the learned Eduard Heimann, whose *Kapitalismus und Sozialismus* (Potsdam, 1931) attempts to make precise the actual economic theoretical differences of capitalism and socialism, not merely as functional distinction, but as to the effect on the "categories"; of the grand old man of Cambridge, Professor A. C. Pigou, whose *Socialism vs. Capitalism* (London, 1937) attempts an internal criticism and, at the least, avoids the ruts of discussion; R. L. Hall's *The Economic System in a Socialist State* (London, 1937) and the projected work of H. D. Dickinson, *Economics of Socialism,* indicate that socialism of the Marxian form is anticipated as a living reality and so political economy is attempting to study it on its own basis and not as a mere counterfoil to capitalism.

B. The rise of dialectical materialism to a triumphant place in the laboratory itself. Here various degrees of assimilation are to be noted, but the testimony of the eminent biochemist, J. B. S. Haldane, in his *Marxist Philosophy and the Sciences* (New York, 1939), is almost wholly in the mold of Engels's *Anti-Dühring*. Further apart are the works of H. Levy of the Imperial College of Science, of Henri Mineur in astronomy (in France), of the psychologist Henri Wallon in vocational studies and in neurology, of Hessen in Russia in the history of science, and of Prenant in biology and Langevin in physics. Disdained as an outside hypothesis only a decade ago, dialectical materialism has passed from theoreticians to working scientists; for instance, J. D. Bernal's *Social Function of Science* (London, 1939) is a much more detailed study of Marxian significance for exact sciences, more canonical than J. B. S. Haldane and more orthodox than H. Levy. He testifies, in excellent style, to the deep impress of Marxism on working scientists in Great Britain.

C. In philosophy and ethnology, dialectical materialism has taken the offensive against all competing schools. Paul Nizan's sardonic *Les chiens de garde* assailed the apologetic nature of French philosophy; it was Leninism assimilated in the style of Diderot. Rivet in ethnology, attacked, and Henry in his *Origines de la réligion* repudiated the hitherto dominant school of the sociologists such as that of Hubert and Mauss. In pure historical theory, the new *Encyclopédie Française* is saturated with Marxian thinking, and the general co-ordinator of French learning, Lucien Febvre, is practically an adept.

D. Proletarian history is being rewritten. Morton's *People's History of England* re-evaluates history as against the liberal tradition; the civil war in Spain renewed interest in Marx and Engels's *Revolution in Spain;* Pierre Derocles gave a sketch of *Saint-Just, ses idées politiques et sociales* that adapted the Jacobin science of Mathiez to quasi-Marxism, and Marc Bloch's *Caractères originaux de l'histoire rurale française,* by insisting on reciprocal factors, gave a Marxian context to medieval society.

E. Greater refinement and maturity in doctrine are to be noted. A decade ago Lapidus and Ostravitianov's *Political Economy* or, even later, August Thalheimer's *Dialectical Materialism* were taken seriously; today they are known to be wholly incompetent.

Appendix I

NOTE TO CHAPTER II A

Westermarck, a leading anthropologist, contested both the method and the results of Morgan's work. He, on the other hand, has been assailed as infantile in reasoning by Cunow, long the official anthropologist of the German Socialists. Even now, while Morgan's monumental achievement is still honored, the tendency of scholars to seek psychic explanations io prefereoce to material ones, has rendered it unfashionable.

But a convergence of scholarship still favors the implications of his studies of primitive society. The most delicate of historians, Fustel de Coulanges, in his *Ancient City,* pointed to a familial organization of Rome and Greece that made every word they employed, such as "liberty" or the "people" have a radically different context from that of a non-familial society such as we live in.

The most social of ethnologists, a lifelong opponent of Marxism, Emile Durkheim, in his *Elementary Forms of the Religious Life,* iosisted that the source of religion was the separation of material goods, some sacred for the priests, some profane for the people, and that in this property demarcatioo was fouod the source of faith.

NOTE TO CHAPTER II B

It has become a commonplace to state that the assumptions of Engels are too easy, that the scheme of evolutioo he proposed is too uniform, that systems of kinship do not everywhere prove tbe primacy of primitive communism and then the matriarchate, etc. Eduard Meyer, the pontifical historian of antiquity, denies that there has ever been a society without the state.

For primitive communism the weight of learning is favorable, as it rarely is for any hypothesis. Nasse, Cunow, Sir Henry Maine, Laveleye, William Stubbs, L. H. Morgan, Otto von Gierke (the greatest modern authority on *Genossenschaft* or the voluntary community), Kovalevsky, etc., are all united. Against it is only one voice, Fustel de Coulanges, whose own superb study of historic antiquity brought him into aothropology. Max Weber attempts a oeutral position, in his *General Economic History* (New York, 1927); he doubts if either side

can ever be "proved." But his objections are methodological. The weight of evidence is crushing.

As to political systems and the state: Engels holds that there is a territorial expression but it is loose and not the foundation of the kinship societies, and applies to hunting grounds about homes. He agrees that there is a political society, that is an organization by the gentiles, over and above the situations within any *gens*. But there is no state, nor political life. Politics is a question of single tribe policy for survival, and there is no authority outside the clans. That the clan is absent from the very rudest people is possible; that rather assists Engels's notion.

So neither the discovery of some territorial nexus for kinship, nor so-called clan politics, nor people too promiscuous to have clans, is against Morgan's main thesis, but rather illustrate it. It is admitted by all critics that

(*a*) primeval political units were insignificant in numbers;
(*b*) habitat was necessarily constituted in large measure by blood kindred.

But it is contended that Morgan's ideas that all American primitive society was democratic is refuted by exceptions from British Columbia and that the Natchez Indians even have marked class (?) distinctions. Conquered lands were distributed (for hunting? horticulture?) among the warriors, so they become a favored class.

Now what Engels contends is that at the hunting stage, democracy is universal, but when horticulture enters, when there is a fixed abode and parceled land has special value, you have *classes* (perhaps made of victorious warriors) breaking through the kindred system. The ethnologists who produce their exceptions must furnish us with complete material backgrounds for these exceptions to have related meaning, for if they were subsequent to horticulture, Engels is confirmed.

Now it is admitted that there is considerable justification for Morgan's heaven-opening view, but "the local bond is by no means in abeyance" among blood kindred. But only when correlated with kindred! But it is also granted that a union of neighbors differs wholly from one of kinsmen. *Kinship dwarfs the territorial factor but never wholly eliminates it.*

What a fuss for nothing! Morgan says, territorial aspects are *derivative*. Really, they are saying, "Morgan is right but let us hope for an exception or two, and then only for a minor detail."

Critics say, Morgan does not notice social units not connected with clan, sib, etc. Where absolutism reigns, as in Africa, blood ties are

weak. Surely these experts must have noticed that the Africans have a *penal system*, the Iroquois, for example, none in our sense. A penal system points to *classes*. That weakens blood ties and that points to the change in material conditions as given by Morgan and Engels.

On specific questions of the time-table of descent systems, of course, Morgan may need some material modification. Perhaps maternal right is more mature and derives from horticulture before that system became more prized than hunting. Certainly many systems can prevail at one time, but the question is, do they correspond to certain material levels, appropriate to each one of these contemporaneous societies? New York and Point Barrow in Eskimo-land are of the same age as to culture.

And even Morgan was not "unilateral"; he was not sure that the clans, but perhaps looser familial groupings, came after non-organization. Certainly the territorial state is based on *classes* (all ethnology grants that) and the modern state, founded on exchange of goods, and on personal claims to money, is the least familial of all.

The main thesis of Morgan is unshakable. It is rejected not so much as whittled down. But necessarily so when Lowie (formerly a Socialist writer) can say that social phenomena pursue no fixed sequences, or that they are so intricate as to elude perception.

Those who wish to pursue the debate can read Lowie's *Primitive Society* (1920—a modernization and correction of Morgan), and Schurtz, *Alterklassen und Männerbunde* (Berlin, 1902). I am convinced they will redouble in admiration for the primitive history given us by Engels, after reading the "modern" views.

Appendix II

SCHEMES OF ECONOMIC DEVELOPMENT. NOTE TO CHAPTER III

Various non-Marxian schemes of economic history are worth noting for comparison. I leave out Roscher, who denied that any theory whatever had meaning in economic history. Knies, his more adept disciple (and far more learned), holds that modified economic laws are possible in the stream of historical change. Gustav Schmoller attacked the classical economists for "premature" generalizations, and stated that we must go a long way before we can acquire the needful data on which to construct theories. His *Grundriss d. allgemeine Volkswirtschaftslehre* (1900) is nevertheless chock-a-block with theories.

Werner Sombart in *Der moderne Kapitalismus* admits his indebtedness to Marx, to whom we owe the very notion of Capitalism and of a Capitalist System. He divides economic history into these stages (I) pre-capitalism, (II) early capitalism, (III) developed capitalism, (IV) late capitalism. The last phase, in his opinion, is degenerate, but not in the Marxian, rather in a physical sense.

The best of all *bourgeois* theoreticians, and the only original one, is Max Weber. He holds a typological theory; that is, he thinks emphasis should not be devoted to generic ideas, like Capitalism, but to historically significant groupings of economic facts. These facts become isolated or crystallized into ideal limits, or "marginal" ideas.

Max Weber, alone, requires reading, for he was at least aware of the implications of the Marxian challenge, and, without the elephantine journalism of Sombart, he deals with the issues.

But he does not understand Marx's ideas of economic categories at all, because for him the appearance of economic relations are the data we have; for Marx they are merely the first stage in exploring internal relations.

Detailed Notes

Clapham pays high tribute to Marx as, effectually, the initiator of economic history in the modern sense. He gives the same reasons as Marx for the rise of capitalism: expansion in the volume of domestic trade was assisted by colonial and foreign trade, and there was a corresponding change in commercial organizations and law and financial devices and other helps to expedite commerce. The need for larger shipments of goods made co-operative manufacturing profitable; large-scale manufacturing stimulated the need for better equipment; and last of all came the widespread application of scientific ideas to the specific machine needs of capital.

He does not deal with the more serious challenge: how did money crack open every pore of the feudal system? This is Engels's first-rate study in the *Anti-Dühring* (see Bibliography).

Clapham holds that North-English industry had passed through a complete evolution by 1830; that it was a developed capitalism in our present use of the term. Despite the fact that French commerce was first in the world in 1789, the long wars and blockade transferred her primacy to England, which then enjoyed both trade and manufacturing supremacy, nearly a monopoly in fact.

Nevertheless the Napoleonic wars are not the only explanation, as the class structure of France had been too rigid, due to military needs

for centuries, and its break-up by the merchants and manufacturers was more costly. Nor were the French behindhand in invention. The tubular boiler and above all the water-turbine, equally important with the steam engine, were French. So was chemical bleaching. The ingenious Jacquard loom was a wonderful replacement of manual labor in detailed operations. But it served for silk and cotton was king.

By 1850 the United States enters capitalism. Its dear labor made it necessary to specialize in machinery fitted to turn out a great mass of one kind of article. The frontier demanded cheap goods, serviceable and labor-saving and not the British long-lived, polished, or well-finished goods. "Yankee ingenuity" produced parts of standard size, quickly assembled by unskilled labor.

After 1880, Indian industry began to develop, and for the first time the white race expanded its modes of production to its colonies. Japan had already begun on her own; even before her modernization in 1868 she had been developing a money economy and a wages system, out of feudalism.

In the twentieth century, says Corey, two tendencies in machinery prevail:

(*a*) The conveyor system, which is the last term in the intensive division of labor and specialization of machines for single tasks.

(*b*) Large automatic machine-units combining a whole series of automatic operations in a single movement.

Appendix III

NOTE TO MARXIAN ACCOUNT OF EVOLUTION OF MANUFACTURES

(*Note to Chapter IV*)

The bibliography for this section is the following: [1]

M. M. Knight, *Economic History of Europe to the End of the Nineteenth Century* (Boston, 1926).

Henri Sée, *Origins of Modern Capitalism* (London, 1928).

Werner Sombart, *Der moderne Kapitalismus* (3 volumes, third edition 1928). The monster work of Sombart has been vigorously contested as to its methods and conclusions by scholars like Brodnitz, but its accumulation of data and racy theories are compelling.

[1] Also see references to Kullischer and Cunow in Bibliography.

J. A. Hobson, *Evolution of Modern Capitalism* (London, 1899).

A. P. Usher, *History of Mechanical Inventions* (New York, 1929).

G. Brodnitz, *Handbuch der Wirtschaftsgeschichte* (Leipzig, 1923?). A perfect model of objective science; vigorously written. Brodnitz is more philosophic than Clapham, and is the foremost authority on British economic development.

J. H. Clapham, *An Economic History of France and Britain* (second edition, Cambridge, 1930. *Economic Development of France and Germany, 1815-1914* (third edition, Cambridge, 1922). No one can go wrong with Clapham: he is a conservative, but scrupulous and entertaining and has a fine sense of generalization.

J. L. and B. Hammond, *The Rise of Modern Industry* (third edition, London, 1927). Liberal history with the working class always in the forefront, as also the diminishing peasantry.

V. S. Clark, *History of Manufactures in the United States* (1929). Elaborate source-book.

E. L. Bogart, *Economic History of the American People.*

E. C. Kirkland, *A History of American Economic Life* (New York, 1939).

J. R. Commons, *History of Labor in the United States* (Macmillan, New York, many editions). *Invaluable bibliography.*

The leading statistical source book on industry was for years Woytinsky's compilation, *Welt in Zahlen* (6 volumes, Mosse, Berlin); since Woytinsky's exile from Germany, the League of Nations' statistical annuals are without a serious rival.

Appendix IV

CRISIS THEORY

(*Note to Chapter* XXX)

An interesting summary of crisis theories is given in two books: Persons's *Forecasting Business Cycles* (New York, Wiley, 1931), which does not do the Marxian theory the honor of mentioning it, and Wagemann's treatise on crises,[1] which has immensely valuable statistical appendices and which grudges the existence of the Marxian hypothesis.

Persons classifies *bourgeois* theories as follows:

[1] E. Wagemann, *Economic Rhythms* (New York, 1933).

Periodic agricultural cycles:

(*a*) W. S. Jevons (Suospot theory).

(*b*) H. L. Moore (Forecasting the yield and price of cottoo, laws of wages, etc., much more subtle calculation of rainfall in the Ohio Valley cycles, etc., as correlated with crops and then pig-iroo production, etc.).

(This hypothesis, though non-Marxian, is materialist in its basis and has met with some sympathy in Marxian circles in Moscow, as a guide to the timing of crises, given the class contradictions of capitalism.)

2. *Uneven expansion in output of organic and inorganic materials.* (Sombart, *Der moderne Kapitalismus,* Leipzig.)

   This theory has some vague correspondences with the former, but emphasizes the disproportion in production as leading to lags in costs between the two elements in productioo and is oot related to external weather cycles.

3. *Theory of specific disturbances such as bad harvests, new minerals, war, inventions, etc.*

   Upheld in substance by Thorstein Veblen and partly by Irving Fisher.

4. *Result of disturbances in the minds of businessmen.*

   This romantic theory is upheld by the Cambridge pundit, A. C. Pigou.

5. *Given Capitalism, it is its special method of suddenly making way for growth and development.*

   The optimistic advocates of the eruption method are Josef Schumpeter (head of the Vienna University economics department) and Gustav Cassel of Stockholm.

6. *The roundabout system of production causes maladjustments because of the numerous adjustments it requires.*

   Followers, Robertson, Aftalion (of Paris), J. M. Clark.

7. *Excessive accumulation of capital-equipment accompanied maldistribution of income.*

   This quasi-Socialist conception is upheld by Tugan-Baranowski, J. A. Hobson and, strangely enough, the most honored British government official expert on unemployment, Sir W. H. Beveridge.

8. *The fluctuation of money profits is sufficient.*

   W. C. Mitchell (I think this description somewhat unjust to Mitchell), Jean Lescure of Paris.

9. *The nature of the flow of money.*

   This distributionist hypothesis, centering in maladjustments of the price system, is held by R. G. Hawtrey aod the "Social Credit" prophet, Major C. H. Douglas.

Wagemann classifies theories somewhat differently, and of course has German variants, but they can easily conform to Persons's scheme.

From the Marxian viewpoint, these theories are not all wrong, but they often confuse the phenomenal appearances of capitalism with the fundamental cause of them, as the efficient cause of crises.

The variations within these theories are much larger than the dry-bones plan above indicates. For example, Veblen has worked out an ingenious study of price, credit, profits and capacity of expected production, and expectation of profits, as related to recapitalization, etc., in its part in the whole cycle. J. M. Clark is really suggestive in his ideas of the mechanism of crises: how they proceed, without special reference to the underlying reason why they proceed at all, etc.

Appendix V

NOTE ON THE USE OF STATISTICS

Statistics have been sparingly used in this textbook, first, because it expounds theory, and secondly, because statistical method, whatever its value, presents more problems than it solves.

What good is it to know that *per capita* "wealth" has risen from $1200 to $3000, or something like that, since 1900 in the U. S. A.? Entirely apart from the question of cost-of-living indices, which would reduce that $3000 probably to nearer $1600, the question of the rate of capitalization of wealth would enter. If money is cheaper now, "wealth" is reckoned higher. It would take us far away indeed from the concrete Marxian notion of labor-time.

Nor would it explain the constituents of wealth in any serious sense. Real estate—that is, land, houses, franchises, etc.—is reckoned at 65 per cent of "national wealth." What a hash in economic terms! Land, not produced by labor, a mere claim on surplus-value, houses, partly for consumption, partly for production, franchises, entirely for production; who is to unscramble these items? The trained Marxian statistician, perhaps, but the mere figures open questions; they do not answer them.

Nor are the hotly disputed "figures" of class income too significant. Once a man put his money into hay and horses; today he lives in town and puts it into the savings bank. The conservative "points with pride" to phenomenal increases in savings and insurance policies, the radical "points with alarm" to the loss of independent function and laments the ruin of enterprise.

Sometimes figures tell us a great deal, such as when from 1923 to 1929 production goods rose by 70 per ceot and consumption by 23 per cent. There can be no dispute: this is a relative gain in constant over variable capital.

Heoce wherever figures have been cited here, it is because their theoretical meaning has appeared indisputable, making allowances for every statistical trap. And even bere the reasooing is to be preferred to the figures, for sound thinking is the foundation of political economy.

Not that statistics do not have their function, and we are much the gainer by certain exact knowledge. But it is doubtful if bourgeois political economy has much bettered the deductive Ricardo, fused with life inductions, or the statistics raging about Marxism have much affected the colossal structure built by that prince of theoretical architects.

Economic Terms Employed by Karl Marx and Frederick Engels[1]

Accumulation The increase of any given amount of capital by the addition of commodities embodying surplus value, or of money received in exchange for such commodities, over the amount of capital taken as a basis for computation, and their incorporation into that capital.

Accumulation, Primitive The amassing of wealth through the expropriation of people from the soil, piracy, colonial plunder, slave-trading. It comprises any mode of acquiring goods that is not derived from an exchange of equivalents in the market. By primitive is meant not that it always precedes in time capitalist accumulation, but that it precedes the exploitation of wage-labor as a process in industry. Primitive accumulation may be found contemporaneously with capitalist appropriation. Within a cycle, though, of the use of capital in production, it precedes the use of wage-labor to produce a surplus-value to be realized in exchange.

Appropriation The taking over of economic goods without the payment of an equivalent; to be distinguished from *exploitation* (*q.v.*) and expropriation.

Bourgeois A member of the capitalist class, that is, a person whose revenues are derived from the ownership of functioning means of production, or of that amount of money which can acquire such means of production. He is distinguished from the landowner, the wage-worker, and the self-employed man.

Bourgeoisie The class of which each bourgeois is a member.

Capital Commodities or money (the money serving to purchase commodities) having the property of increasing in quantity of value by reason of the addition of surplus-value to their original quantity of value.

Capital, Bankers' Money loaned to industrial, merchant, or landed capitalists, which permits the industrial capitalist to consume a

[1] These terms are defined only where they differ from dictionary usage or from that of customary economics.

greater quantity of labor-power and thus incorporate more surplus-value into his capital. His payment for this loan cannot exceed the totality of surplus-value it produces, for the repayment is made only from that source. Merchant capitalists repay at second remove, since they obtain divisions of larger quantities of surplus value. Landed capitalists repay out of two species of rents, themselves partitions of surplus value, but in a special manner due to monopoly (see *Rent*).

Capital, Circulating Capital, as viewed by the capitalist, composed usually of raw materials, wages payments, and other disbursements that have to be renewed at frequent intervals. It is based on the rate of turnover and is a bookkeeping distinction. It does not represent an economic category like constant capital. Non-Marxian economists view it as an economic distinction for purposes of analysis.

Capital, Circulation The commodities belonging to a capitalist which have left the production process and are now circulating or seeking to circulate, that is, to be exchanged against money or more commodities.

Capital, Composition of The proportions of a capital represented by its material aspects (constant capital) and the amount used to buy labor-power (variable capital). Sometimes called the "organic composition" of capital. If the constant capital exceeds the variable, it is termed a high organic composition; if the reverse, a low organic composition.

Capital, Constant That part of capital which is represented by the means of production, that is, all physical objects in production: the materials of production as distinguished from labor-power. This includes the factory itself, for example. It has the unique property that its value can only be transferred by labor-power into a new product, but it can never be increased by such production.

Capital, Fixed That part of Capital, as viewed by the capitalist, that requires replacement or renewal at long intervals. Its replacement, in its entirety, constitutes a cycle of investment for the capitalist. He considers the circulating capital by the number of cycles it can go through before the turnover in fixed capital is completed. It usually comprises buildings and heavy machinery, ships, locomotives, mining equipment, etc.

Capital, Form of The objects in which capital manifests itself in the course of accumulation. Money, means of production, variable

capital or wages, products for sale, are phases through which capital must go in order to increase.

Capital, Industrial That capital which consumes labor-power, which it purchases from workers, and for which it pays value, but which in the process of production obtains more hours consumption of this labor-power than the value it paid. This addition arises because labor-power is the unique source of value.

Capital, Merchant Money or commodities, which, in consideration of the service rendered producing capitalists in the circulation of commodities, receive a portion of the surplus-value absorbed by productive capital, but this reward does not permit the total surplus-value shared to be increased beyond its original amount: partition and not addition is its mode of action.

Capital, Variable That part of capital used to purchase labor-power. It is termed *variable*, since it alters in quantity with the consumption of the labor-power, once the value of the labor-power itself has been consumed, and the additional time of the worker is given gratis to the purchaser for value of his labor-power.

Capitalism The production of an immense number of commodities, for a profit, which profit is obtained by the purchase of labor-power by the capitalist engaged in production. (See *Surplus-Value*.) It shares with other modes of production the commodity form of exchange and the use of money, but it is distinguished from them by the use of abstract labor-power, which, in turn, assumes a social or co-operative form of labor, a working together in mass.

Category In Marxian economic theory (not in dialectical materialism) that abstract concept, such as Capital, or Value, which summarizes a common quality of certain objects or economic actions, and thus distinguishes them in this quality from other objects without these qualities. A category is a class of things, that not merely have these common properties but are defined by them.

Centralization The control, or ownership, of a number of capitals in each of which concentration (*q.v.*) has already taken place. Thus centralization may absorb capitals that are themselves representative of a centralization process further back. It is a mode of acquisition that can be repeated in ever-widening circles.

Circulation The purchase and sale of commodities, usually by means of money. The means whereby, after a series of movements from buyer to seller, articles are finally distributed for consumption.

Circulation, Capital Buying in order to sell, or, mathematically, money into commodities into more money (*M-C-M'*).

Circulation, Commodities The sale of commodities for money, the object of which sale is to acquire more commodities. The mode, therefore, of distributing goods for consumption, and the transformation of commodities into their equivalent; their taking shape in this equivalent as commodities, and thus passing out of the form of merely being use-values. The double operation, which converts the equivalent again into another use-value, is termed by Marx the "complete metamorphosis." He means that the original quality of the commodity has been transformed by this selling and buying into a commodity having a totally different quality, another use-value.

Circulation, Medium of A means whereby commodity circulation is effected; it must be either a general equivalent for other values, or, more usually, the universal equivalent, money.

Circulation, Simple The conversion of a commodity that is not wanted by its producer into one that is wanted for its use, and with no other object in mind.

Class A group of persons related in a specific manner to the mode of production, and, by extension of meaning, a sub-class in the sphere of circulation. Thus a group of persons who are related to means of production as owners are called the capitalist class; persons who sell their labor-power for their means of subsistence and sell it in the process of production are termed the working-class or the proletariat. The notion of classes overlaps. For example, landowners who hire peasants, by reason of their relation to a means of production, the land, are a common class with capitalists as purchasers of labor-power, but an opposed class as collectors of rent. Classes are thus in functional relations to each other, about means of production or in the sphere of circulation. A merchant is a member of the employing class as against his help, but a contender for part of surplus-value against the industrial capitalist. But a shoestring promoter, who lives off surplus-value, but exploits nobody and owns no capital, is called declassed, for he is in no constant relation to persons of another group, connected with the production or appropriation of surplus-value. In capitalism (*q.v.*) the referent of economic (not social) class is always surplus-value.

Class Consciousness The awareness by any class that its interests require a certain mode of action.

Class Struggle The economic conflict of groups for surplus-value. These struggles are of two kinds:
Primary—the struggle between workers who sell labor-power and capitalists who buy it, either as to hours of labor, intensity of labor, class organization, or conditions of labor. For these there is no economic criterion, the issue resolving itself into mass of force.
Secondary—the struggle of classes against each other for the division of surplus-value. None of these groups are sellers of labor-power.
According to Marx, history is another name for class struggles, so far as its variables are concerned.

Coin Money in its employment as currency, that is, as moving from hand to hand. Marx makes no distinction in this use of the difference between its metallic form and its paper representative so that his context must be carefully read as his definition is functional only.

Commodity Any object that is of some use and that contains *value* (*q.v.*) and which because it has a value may be exchanged. It is a hybrid of a natural quality, utility, and a social quality, the amount of necessary social labor-time required for its fashioning. It is composed of natural goods, or materials and social effort. It is not a commodity, though, even if it has both these attributes if it is produced for the consumption of the maker. Thus the third factor of *intention to sell* is required. It must find another object in which it may realize its imminent value, by way of an exchange.

Composition, Organic The division of a capital into constant and variable; the proportions of these two divisions. By a high organic composition is meant a larger proportion of constant capital to variable.

Composition, Technical The composition of capital by *mass* of means of production and living labor-power, as distinguished from the organic composition which is defined as the proportion of *value* of constant to variable capital.

Concentration The accumulation of capital in ever larger amounts. This process may come from two points of departure, the exploitation of wage labor or the forcing out of business and the acquiring of the assets of small non-exploiters and the use of them as additional capital. It is often used interchangeably with *centralization* but the distinction is too useful to be obscured.

Co-operation Outside of the usual mercantile sense of a union of consumers to distribute merchandise without a middleman, Marx

uses it to indicate the collective working together of labor, social labor, that is, and the use of collective power therein, the sum of which labor is greater than the total of the individual labors expended; this extra labor is the gift of the workers to the capitalist, since it represents a quantity over and above that which would be attributable to each laborer working alone.

Crisis A period in which means of production are produced in far smaller quantities than in a previous period, and in which unemployment also prevails to a much greater extent and in which wages or conditions of labor are worsened. Its effect in the sphere of circulation is the sharp reduction of sales of consumption goods and a diminution of their production. It is characterized by declining prices. In the financial superstructure, it leads to restrictions and defaults of credits, repudiation of commercial and financial obligations, and consequent bankruptcies.

Currency Money in its function of serving the movement of commodities and in so doing always moving funher away from the exchanges taken as a base for calculating its movements. Hoarded money, for example, is not currency.

Cycle The alternate epochs in which the capitalists accumulate at an increasing rate and those of *crises* (*q.v.*). Cycles usually begin with a slow recovery from a previous crisis, at first uncertain and unevenly distributed, and end with extremely rapid accumulation, a more generalized activity and high employment. Their lengths are uneven but cycles tend to be completed in less time as the tendential rate of profits to go lower manifests itself increasingly.

Dialectic That property whereby any object or relation in motion is changed in character by that very motion. Changes may be either qualitative or quantitative; qualitative changes can originate by a change in the quantity of the object of which it is an attribute, and quantitative changes can be induced by an altered quality in the object of which it expresses weight or substance. At a given point, every quality and quantity must become the opposite of what it was previously. That point is not to be determined always in the same way, nor is it always a unit of an ordered series. This concept is used by no economists other than the Marxian.

Economics The study of the relations of the production of wealth, apart from physics or chemistry, and of the modes of its distribution, but excluding from its purview those social and political factors, particularly juridical and class relations, in which this production

and distribution are affected. It is distinguished from Political Economy, which comprehends the ecooomic activities in a social reference. Hence Economics is abstract study of economic activities, isolated for the sake of theoretical exposition. In bourgeois usage, economics and political economy are effectively the same scieoce, though some economists distinguish them formally, like the Marxians.

Exploitation The consumption of labor-power sold by a worker, by its purchaser, the capitalist; therefore the employment of a worker by the payment of wages. Only labor can be exploited, aod only by way of a purchase of its laboring-power for a given time. The term is wrongly used to mean appropriation, as of surplus-value rating as capital and itself derived from unpaid labor-power.

Expropriation The taking over of property previously held and not created immediately in the labor-process. A worker's surplus value is *appropriated,* a worker is *exploited* by reason of the consumption of his labor-power by another, but a petty land-owner or businessman is *expropriated.* The yeomanry, or freehold owoers of land, were expropriated but the rural labor of the feudal manor was merely ejected. Marx's use of "expropriation" is extremely specific, for it *deprived* former owners of the capacity for self-employment and left them only labor-power to sell.

Fetichism A term derived from the idea that an object contains a spiritual person and must be adored or appeased. Marxian usage is the same. Any attribution of a social relationship to inanimate objects, which assumes that these social relationships are physical properties of the object, is a fetichism. Thus the idea that gold is inherently more valuable than iron, or that pearls naturally command a higher price than bread, would be fetichisms. Fetichism is always a mask which cooceals a social relation and is always the reverse of the truth.

Ideal That attribute whereby one economic function serves to bring out in a more general manner the economic possibilities of another. For example, a promissory note is an ideal means of purchase, since it is a more general function of the services of coin; money in the abstract is an ideal form of gold.

Interest That part of the surplus-value paid to the banker or mooeylender or investor for his provision of a money capital, over and above the returo of the capital itself. It does not receive the average rate of profit, but less.

Labor The utilization of his labor-power by the worker in the course of production. The term is used popularly to characterize the working class.

Labor, Abstract The undifferentiated use of labor-power which creates value as against the concrete labor that produces only a use-value.

Labor, Concrete The specific activity of labor, the making of specific articles by the worker, as for example tailoring, stonecutting, as opposed to undifferentiated labor. The use-value or utility of any object, apart from any question of exchangeability, is due to concrete labor.

Labor, Counted That labor which is of social utility, which is an expression of socially necessary labor, and which is measured by the social labor-time required for its *reproduction.*

Labor, Dead Means of production or constant capital which embody previously expended labor. They have a value already incorporated in them and this value is preserved by living labor.

Labor, Living Labor expended in the process of production; the creator of new value and the preserver of old value by transferring its use-value to the objects in which it gives new value.

Labor-power The capacity, physical and mental, to perform labor. It is sold in the abstract for a given number of hours per day, and utilized as concrete labor by its consumer, the capitalist. It is distinguished from labor, which is its manifestation, and it itself is a product of previous labor which has been embodied in the means of subsistence which have reproduced it. It is, therefore, a commodity.

Labor-power, Value of The amount of socially necessary labor incorporated in the means of subsistence of laborers, defined as the traditional amount required for fairly extended periods in a defined area, such as a country or large region.

Labor Time The number of hours, or minutes, necessary to the production of any commodity and the value of that commodity, though not the expression of that value in exchange.

Labor, Wasted Labor put into an object that is of no social utility, or that excess of labor put into an object above what would be required for its reproduction. Such labor is not embodied as value, since it has made objects but not commodities. It is not an aliquot part of total socially necessary labor.

Management The art of utilizing labor in the capitalist system, that is, the organization of production in order to obtain the largest mass and highest rate of surplus-value. Marxian usage differs from the standard use, in that it differentiates management from production itself, since a management that achieved the greatest production and the finest quality might be inefficient management in the capitalist system and would be if it produced no surplus-value.

Manufacture Utilization of co-operative forms of production, with the use of only hand-manipulated machines, as against power machines. Marx differentiates it from machine capitalism, whereas most economists use the terms interchangeably.

Materialism, Historical The theory that modes of production are decisive for the economic structure of society, and that this economic structure conditions significant historical events.

Materialization The concrete form of any immanent economic attribute, as the manifestation of value as exchange value, or the manifestation of abstract labor in money.

Means of Exchange Marxian usage excludes money from this definition. A commodity is a means of exchange since it is produced only so that by reason of it another use-value can be acquired.

Means of Payment Marxian usage is more restricted than the ordinary; it excludes currency and is confined to orders to pay either in the present (check), in the future (promissory notes, etc.).

Means of Production Constant capital (*q.v.*).

Means of Subsistence Similar to the ordinary definition, except that it is usually employed to identify the goods required to reproduce labor-power and is the determinant of its value.

Money The equivalent form of value in its most generalized form, a universalization of the general equivalent (see *Value, General equivalent*). Its commodity form is that of precious metal, gold, sometimes also silver, its token commodity form, copper, bronze, or nickel; these concrete forms of money manifest commodity value. There is also money of account whereby other commodities or objects having a price are spoken of as so much money.

Political Economy The production or distribution of wealth in terms of the class relations and the legal and social and political expressions of those class relations in any given society at a determined epoch. (See *Economics.*)

Price The expression of value in money, the value-form carried to its furthest development (see *Money*). Price does not coincide with value, although it is an expression thereof. Value is the

standard which price seeks to express but it can discover that correspondence only in the market. A more rigorous definition would be that price is the social mode of exploration, to realize the most generalized equivalent of value, subject to social contradictions.

Productivity The magnitude of useful articles that can be fashioned in a given time.

Proletariat Members of the working class or of the clerical sections of the working class who are sellers of labor-power and have no effective means of self-employment. This class, by extension, includes such self-employers as hucksters, newsboys, etc., whose earnings do not arise from ownership of capital, and the quantity of which, as a social average, does not exceed that of comparable workers.

Profit The ratio of surplus value to the total capital employed, both constant and variable. It is always smaller as a rate than surplus-value, always equal as a mass.

Property The allocation of goods to certain persons, whether natural persons or artificial persons (corporations), of which goods they have the exclusive disposition for use and sale subject to a legal code that defines the limits of such use and sale. It is applied, by extension, to cover the same relation of persons to claims on goods, as in investments. Property is divided into such as is not used to exploit another person, as consumption goods or individual tools of a self-employed person, and capital, that is, commodities employed to obtain surplus-value, whether by directly purchasing labor-power or sharing in surplus-value.

Realization Marxian usage limits it to the obtaining of a commodity or money as the manifestation of immanent value in the commodity exchanged.

Reproduction, Simple The consumption of the increments of capital by the capitalist so that at the end of any given period, his original capital remains intact but is not increased; in the course of time he will have consumed his original investment and the capital which he then possesses will have been entirely furnished out of surplus-value, but its quantity will be equal to the original capital so consumed. (See *accumulation*.)

Value The average, socially necessary, homogeneous, abstract labor-power embodied in the totality of commodities and measured by the quantity of time of such labor. Every commodity is conceived of as embodying a given number of units of this value. This value,

although the substance of labor-time, is not a property of the commodity, but a congealed labor-power, as separated from labor itself, as a commodity, in the specific class relations of capitalism. It would not exist in communist society.

Value, Absolute Any value considered as its own quantity and not as measured for comparison against any other value. For Marx all value is absolute, objective, and social.

Value, Exchange The expression of value, which is immanent, by way of another commodity as a useful thing, hence the expression of immanent value as a definite quantity in terms of some other commodity which permits it to emerge as realized value. Illustration, a commodity has two hours units of social labor-time attributable to it, it is realized in the body of another commodity embodying the same labor-time.

Value, Immanent Value prior to its manifestation in exchange.

Value, Individual A loose expression probably best defined as the exchange-value appearance of any given commodity irrespective of its intrinsic value; a realization of immanent value by a useful commodity whose labor-time is not equivalent to the aliquot part of social capital of the commodity whose value it expresses.

Value, Intrinsic The value implicit in all commodities, although not recognizable in a corresponding price, and remaining true of that commodity irrespective of deviations from that value either in exchange-value or price-form. It is an aliquot part of total value and is not disturbed by any fluctuations in its realization.

Value, Substance of The labor-time incorporated in the commodity as defined above under "value."

Value, Use Those attributes of any commodity that adapt it to specific wants, such as shape in bowls, transparency in window glass: colloquially used in Marxian terminology to mean the objects themselves as physical goods and not as commodities.

Value-Form Exchange-value.

Value-Form, Elementary The expression of the value of any one commodity by way of the body of any one other.

Value-Form, Equivalent A commodity considered as directly exchangeable with other commodities. It is a character of the commodity in any given relation and is not inherent. It is at the opposite pole of its value relation with the commodity whose value it expresses as a useful object; that object is the relative form (*q.v.*).

Value-Form, Expanded or Extended or Total The expression of the value of a commodity occurring in many other useful objects. It is no longer accidental like the elementary form, for it is predictable, owing to its repetition in the number of objects expressing its value.

Value-Form, General The expression of value of any number of commodities by way of a single useful object. This precedes the use of money, which is the universal equivalent, replacing the general equivalent, but retaining the same form of value.

Value-Form, Relative The commodity whose value is being expressed by another object. It would be more exact to speak of the relative pole of value, rather than the relative form.

Value, Surplus Value produced by a laborer over and above the value required to reproduce the means of subsistence of that laborer. This latter is the value of his labor-power.

Value, Surplus, Absolute The increase of working hours over and above the former surplus of such time over the number of hours required for the worker to reproduce his labor-power through means of subsistence.

Value, Surplus, Relative That increased time devoted by the laborer to the employer within a given working day over and above the previous time so donated, and usually arrived at by an increased intensity of labor, or by a larger employment of constant capital, and thus by increasing productivity in any given hour, enabling the worker to reproduce his means of subsistence in less time.

Wages The money-expression of the payment for that portion of the working day which is devoted by the laborer to reproducing his own labor-power, and is apparently a compensation for the entire working-day.

Wealth A term for all products of labor and natural goods as well; all use-values. It excludes such claims upon products as are embodied in titles to land, etc., which do not add to the sum of use-values but merely register the right to engross some.

A Socialist Chronology

1776 Adam Smith (1723-1790), *Wealth of Nations.*
Declaration of Independence (U. S. A.).

1789 Declaration of the Rights of Man.

1796 Conspiracy of Babeuf, *Conspiracy of the Equals.*

1811-12 The Luddite Riots and Lord Byron's Discourse.

1817 Ricardo.

1825 Labor-unionism legalized (England).

1829 Workingmen's parties (U. S. A.).

1832 First proletarian insurrection, at Lyons (silk-weavers). "Live as worker and die as fighters."
Middle classes triumph in England; the Reform Bill.

1832-33 Phalanstery movement of Fourier gains.

1834 Grand National Consolidated Trade Union (England).

1836 Victor Considérant; beginning of economic co-operatives.

1837 *and after* Chartism in England; rise of Bronterre O'Brien, radical.

1844 The Rochdale experiment.
Rising of the Silesian weavers (subject of Hauptmann's play).

1846 Free Trade in England.

1847 League of the Just becomes the Communist League, led by Karl Marx, who (with Engels) issues the *Communist Manifesto:* "Workers of the world, unite! You have a world to gain, you have nothing to lose but your chains!"

1848 European revolution.
June Civil War in France; crushing of the working class in Paris by Cavaignac.

1848-49 Failure of Karl Marx and other revolutionists in Prussia.

1850 First great upswing in business and first sign of improvement in condition of workers since beginning of the factory system; inflation in prices due to Californian and Australian gold discoveries.

1861 N. G. Tschernischewsky, *What's To Be Done?*
Abraham Lincoln, "Labor is prior to capital."
Freedom of the serfs decreed in Russia.

1862 British workers support the North, British governing class the South: first class division in England on foreign policy.

1863 Lasalle (1825-1864) calls for formation of general German Trade Union.

1864 Beginning of Nihilist and Populist movements in Russia.
Founding of the First International, Karl Marx, leader.

1865 Bakunin (1814-1876) founds Italian section of the International on an anarchistic basis against the co-operative basis of Mazzini.
Negro slavery abolished in America; free labor and farming triumph; the South is reduced from a competitor to a colony of the Northern capitalists.

1867 First strike wave in the world (England).
Marx's *Das Kapital* appears in Hamburg.
Triumph of the direct, equal, secret, universal ballot (Germany).
British working class given the right to vote.

1869 Founding of the great German Social-Democratic party under Bebel (1840-1912) and Liebknecht (1826-1900).

1871 THE PARIS COMMUNE: FIRST PROLETARIAN-DIRECTED STATE.
Garibaldi, Italy's liberator, states his unity with the Workers' International.
First meeting of the International sections in the U. S. A. (mostly German immigrant artisans).

1872 Split in the International between Socialists under Marx and Anarchists under Bakunin.

1873 Beginning of the six-year economic crisis (world-wide).

1877 Strikes of rail-workers in the United States; the "Molly Maguires"; rise of the private industrial detective agency, the Pinkertons.
Foundation of a Socialist Labor Party among German workers.

1879 Henry George's (1839-1897) *Progress and Poverty* creates a great rent-nationalization movement on a scientific basis.
Prohibition of the Socialists in Germany by Bismarck.

1880 Formation of mass socialist parties in France on a generally Marxian basis.

1881 Formation of the S. D. F. in England under H. M. Hyndman; Marxian inspiration, but dogmatic and confused.
State socialism in Germany as demagogic policy.
Formation of the American Federation of Labor under Samuel Gompers.

1883 Death of KARL MARX in London.

1884 Founding of the Fabian Society in England (Sidney Webb, Bernard Shaw).

1885 Formation of the British Socialist League, pure Marxians, headed by the poet William Morris (*News from Nowhere, Dream of John Ball, Rebel Poems*).

1886 GREATEST YEAR IN HISTORY OF LABOR: Foundation of general trades union in France; mass demonstrations against government in England; mass rallies in Austria; Scandinavian Union of workers under Marxian direction; Haymarket bomb episode, Chicago; breakup of Anarchist hegemony; dynamic development of the "Knights of Labor"; candidacy of Henry George on Labor ticket for Mayor of New York; beginning of the gigantic houses of the Workers' Socialist co-operatives in Brussels.

1887 Beginning of New Unionism in England under leadership of Keir Hardie, John Burns, Tom Mann, the latter still (1939) Communist leader.
Opening of the Bourse du Travail or Labor-Exchange governed by workers in Paris.
Workers shot in Trafalgar Square, London.

1888 Daniel de Leon, political scientist and an editor of the *Political Science Quarterly,* deserts "bourgeois" economics for Socialism. Laurence Gronlund, native American Socialist writer.
May Day founded by Americans, spreads over world after 1889.
Edward Bellamy, elegant Beacon Hill (Boston) writer, embraces equalitarian utopian Socialism in his book, *Looking Backward.*

1889 Docks strike, London.
Founding of the Second International, Paris; mass Socialist parties of the world unite.

1891 ENCYCLICAL OF LEO XIII, *Rerum Novarum,* in wbich the Catholic Church espouses the cause of labor but denounces Socialism; not a matter of faith but of policy.

1893 Foundation of the Western Federation of Miners (U. S. A.), prototype of industrial unionism throughout the world, and nursery of practical Syndicalist ideas.

Panic in the United States; Populist ideas dominant among farmers of prairie states.

Foundation of Independent Labor Party by Keir Hardie (England).

1894 Foundation of Marxian Socialist parties (illegally) in Russia.

1895 Death nf FREDERICK ENGELS.

1896 Last fight of the American middle classes for power, under W. J. Bryan; complete victory nf large capitalists under leadership of Mark A. Hanna, steelmaker of Ohio.

1897 Workmen's Compensation Act (England).

Death nf Henry George.

Foundation of the Social Democratic party of the United States under the rail-union leader, Eugene V. Debs nf Indiana.

1898 The Social Democratic Party of Germany polls two million votes and elects 56 parliament members.

Socialism becomes a major political movement in Europe.

Russian Social Democratic Party founded, on a strict party basis and absolute Marxian doctrine; appearance of Lenin as an important writer.

1899 Bernstein splits the Socialist theoretical position by *Revisionism.*

Split between de Leon and Debs (U. S. A.); Debs rejects de Leon's nrganization of Socialist unions only.

1900 Socialists become an important Italian parliamentary party.

1901 House of Lords declares all trades unionists liable fnr damage in strikes: labor loses confidence in the bourgeois state and its justice (Taff Vale case); brings about mass rejection of old Liberal and Conservative parties by workers.

Iskra becomes Marxian Russian organ of Plechanoff, with Lenin an editorial writer.

1902 Great anthracite coal strike in U. S. A.; appearance of President Theodore Roosevelt as arbitrator; affirmation of George F.

Baer, head of Reading Railroad, that God Almighty has given the rich men their money. Rise of John D. Rockefeller to largest personal fortune; sale by Andrew Carnegie of his steel interest to new formation of world's biggest trust, the U. S. Steel Corporation.

1903 Beginning of Syndicalism in Italy; soon spreads to Spain, where it fuses with Anarchism.

Split of Bolshevik-Menshevik at London convention of Russian Socialists.

1904 Debs polls 400,000 votes in U. S. A. Socialism becomes a fashionable doctrine among wealthy intellectuals.

1905 Formation of the I. W. W., most celebrated Syndicalist organization, denounced by de Leon as perverting Marxism into "bummery"; Upton Sinclair's novel, *The Jungle,* shocks U. S. and is first Socialist "best seller"; conversion of Jack London; Robert Hunter's book on *Poverty* has wide sale.

Uprising of the people in Russia, the first Russian Revolution; nearly three million workers in a general strike; constitution granted by Tsar.

1906 Counter-revolution and terror in Russia.

Fifty-four laborites elected to British House of Commons.

1907 Guild Socialist agitation begins in England with Orage and Penty.

Trial of Moyer, Haywood, and Pettibone in Boise, Idaho, for alleged murder of Governor Steunenberg; Borah, the prosecutor, uses perjurer, Harry Orchard; failure of state's case; Haywood acquitted, becomes hero of the left-wing labor movement in the United States.

1908 I. W. W. split between Marxians and Syndicalists.

Reaction triumphant in Russia; labor crushed.

1909 The Lloyd-George Budget, high point of radicalism in England; House of Lords, first time in two centuries, vetoes will of the people.

Briand forces postal and rail strikers to join the army in France and breaks their strike.

1910 First Great International Victories of Socialism:

In France party wins important parliamentary elections.

Milwaukee first large American city to go Socialist.

Two millions now in German socialist-run trades unions.

In England formation of triple alliance of coal and transport workers threatens general strike.

The police spy, Azeff, unmasked; power of Russian secret police broken.

American Federation of Labor abandons isolation and joins International Trades Union Federation.

Socialist organizations have eight million members.

1912 Great coal strike in England. Deep social unrest.

American radicalism now a solvent; Roosevelt splits Republican Party to assimilate up-to-date Populism; Debs polls 900,000 votes in U. S. A.

Socialists poll 4½ million votes in Germany, elect 110 members of parliament.

Socialism now a mass movement.

1913 Socialists poll a fifth of all Italian votes; German socialists more than a third. Fear grips European governing class.

1914 The World War: Socialist parties split; Jaurès, French leader, assassinated; British Independent Labor Party goes pacifist; German party split; Lenin in Switzerland rallies broken International; great majority of socialists follow their governments.

1915 Russian Bolsheviks demand peace without victory.

Lenin becomes world's leading socialist pamphleteer.

Zimmerwald conference of seven socialist parties in warring countries shows vitality of the International.

1916 Kienthal conference lays foundations for a third International.

1917 Whitley Councils in England give workers representation in the factories.

United States Socialist party denounces the War and refuses to follow patriotic faction, who split; Debs arrested and imprisoned.

Bolsheviks seize power in Russia through Workers' and Soldiers' Councils led by the Communist Party; Lenin becomes head of the state.

1918 Brest-Litovsk peace humiliates Soviet Russia but gives her time to organize her defense; epoch of civil wars in Russia begins, aided first by Germans and then by the Allies; collaboration of warring states against the Revolutionists.

German revolution, beginning with sailors' mutiny, ends the War and the German monarchy.

Austrian monarchy tumbles.
Three antique social orders crack for good (Romanoff, Hapsburg, Hohenzollern).

1919 Formation of the Third International.
Social Democrats in Germany refuse to institute Socialism on the ground that they have 45.5 per cent but not 51 per cent of the voters.
Liebknecht and Rosa Luxemburg murdered.
Immature Soviet states established for a few weeks in Bavaria and Hungary.
Socialist movement split between Communists and Socialists.

Chronology of the Next Few Years

1920 Congress of Tours in France; Bolsheviks in majority.
Socialist vote in Germany sinks to 41.8 per cent; defeat of Kapp putsch of reactionaries.
Formation of the American Communist Party (several factions).
End of the civil war and the Polish war finds Russian economy at lowest level in a century; Lenin takes cognizance of wreck and famine and institutes recovery policy as antecedent to Socialism.

1922 Development of the New Economic Policy in Russia: permission of minor capitalist activities to spur on production, as an interim policy dictated by war losses.
Ex-Socialist Mussolini organizes Fascism in Italy.

1923 Inflation in Germany consummates ruin of the middle class.

1924 MacDonald, Prime Minister in England; Labor Party nominally in power though not in possession of a majority; overthrown in general election in which a forged document figured largely.
Death of Lenin.

1926 General strike in England.

1927 Trotsky excluded from Communist Party.

1928 Institution of the Five-Year Plan in Russia.
Socialist parties breed apologists for capitalism based on American prosperity.

1929 Collapse of American prosperity.

1930-33 World crisis: deepest decline of production, trade, and employment, as well as of nominal wealth, ever recorded; wholesale devaluations of currency and great gains in state intervention.

1933 Fascist triumph in Germany.
Socialism enters a dark period.

1934-36 Epoch of reaction in Europe; attack on Spain.
End of State Liberalism in the United States; New Deal under F. D. Roosevelt.

1936 Emergence of Popular Front in several countries as barrier to Fascism; growing strain of armaments.

Index

Marxian theory is so interwoven that indexing is a special problem. Wherever any concept could have been listed otherwise, the leading heading has been utilized, except where this would have been too vague, and at such points cross-indexing has been supplied.

Marx and Engels are listed only for biographical data. The glossary is not indexed. Subject headings are italicized.